CRITICAL REVIEW

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Andrzej Walicki

RUSSIA, BEFORE THE COUP AND AFTER

The following discussion of the situation in the Soviet Union as perceived by the author in two visits, in March-April 1991 and September 1991, was not written in the vain hope of presenting an up-to-date account of the changing events there. Rather, it is an attempt to begin to identify elements of continuity as well as change in the transition to postcommunism, and to assess both what led to the attempted coup and its defeat and factors bearing on the postcommunist future.

I. TOWARD POSTCOMMUNISM: MARCH-APRIL 1991

I had not been to the Soviet Union since 1975. I expected, therefore, that I would now see a different country. I decided in advance that I would not let myself be surprised by anything, that I would look around—and learn.

I was struck by general neglect, dilapidated houses, uncleaned streets. At the hotel, furniture with torn covering, dirty bathroom,

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cockroaches, and even mice. But the municipal transport functioned perfectly, as before.

A lot of trade done in the streets, which, of course, was new: flowers, foreign-made goods, and books. The books were sold at so-called contractual prices, which were several times higher than in bookstores: from 20 to 60 roubles per volume, with the average pay amounting (before April's price explosion) to about 300 roubles per month. The combination of titles was extraordinary: the Scripture jostled sex handbooks and semi-pornographic publications; works by Solzhenitsyn and other émigré authors alongside those by Western Trotskyists; writings of formerly banned philosophers and poets (Nietzsche, Russian religious thinkers, Tsvetayeva, Mandelstam) next to vulgar entertainment literature. A great number of independent periodicals, published quite legally, usually in editions of 150,000 copies, which means that they can be bought in republic capitals but not in the provinces. Some of the periodicals seemed like historical relics. The monarchist *Moskovskiye Vedomosti* (*Moscow News*) identified itself with the newspaper published under the same title before the Revolution: the same graphic design, the tsarist two-headed eagle, and the information that it was founded in 1756. The *Nevsky Kuryer* (*Neva Courier*) from Leningrad introduced itself as the organ of constitutional democrats, published in Petersburg.

The fact that it was nevertheless the same country was best borne out by the still almost complete isolation from the communications and the economy of the rest of the world. There were practically no Western periodicals; connections by telephone with Western countries were as difficult as can be imagined; air mail letters reached addresses abroad after at least a month. Even buying a ticket for travel abroad, whether by plane or by train, was far from simple, and required far more than the right amount of money. Nor did one see Western commodities in shops, if we disregard shoddy goods sold at the bazaar. In terms of Western cars (or rather a lack of them), Western dress, etc., the center of Moscow still resembled Warsaw in the early 1950s.

The structure of prices was another telling testimony to the immense distance that separates the Soviet Union from countries with market economies. In terms of bread prices, one rouble was worth at least five to six U.S. dollars although the official exchange rate was the reverse; in terms of underground tickets—five kopecks for a ride at any distance—the purchasing power of the rouble reached almost twenty dollars. But the free-market price of the rouble is, of course, determined by quite different factors, and hence reached thirty roubles

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per dollar. Such was the price paid by Estonian banks which purchased dollars from private persons. In other words, there is no rational way of calculating the conversion price of dollars to roubles, or vice versa. The introduction of economic reforms which would bring the existing price structure closer to that of world markets seems almost impossible under such conditions. The price increases in April, which tripled the price of municipal transport tickets, changed the Soviet Union's economic isolation very little.[1] In some respects the new official rate of exchange, 27.5 roubles per dollar instead of 5 to 6, as before, made things worse by legalizing such absurdities as the fact that travelling from Moscow to Warsaw in a sleeping car cost less than two dollars.

The goods that could be bought in shops are not worth mentioning. The times when one could easily buy a camera or electronic equipment belonged to the past. The same applied to just going to the restaurant. Food stores were empty, exhibiting in most cases one or two not very necessary imported commodities, such as Turkish tea. Meat appeared only frequently enough to be snatched up by pensioners who have time to stand in lines, foraging for the whole family. The painful price rise improved the situation very little, almost not at all.

The urban population seemed quietly resigned. Not long ago, experts in the Leningrad Association of Socio-Economic Sciences saw in this a manifestation of lowered aspirations which could be conducive to the transition to a market economy.[2] Today they would probably not risk such an opinion. The fact that deep disillusionment with the system was not combined with faith in "the new beginning" and with a corresponding readiness to suffer privations did not augur well for the reformers.

Nezavisimaya Gazeta (*Independent Daily*) of March 12, 1991, published the results of a public opinion study entitled "It Is Worse Every Year." They showed that only a minority would support "the change achieved in 1985." The positive achievements of Gorbachev's policy included, in the eyes of the public, the withdrawal from Eastern Europe, the sovereignization of the republics, and the policy of supporting private ownership. Yet as many as 50 percent of the respondents saw the principal cause of the fall in living standards as toleration of the second economy, i.e. "the mafia system," and as many as 48 percent favored a strong government. The proportion opposed to both price increases and the second economy (65 percent) was almost twice as high as the proportion demanding that land and the means of production be restored to the peasants (34 percent). The overwhelming majority refused confidence in the public authorities and expected (75

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percent) an increase in the importance of the Church in public life. Further, 52 percent of the respondents believed that the Soviet Union can serve as an example "to no one" (the figure was 34 percent in 1989 and a mere 5 percent in 1988). Opinions on the future of the country were even more gloomy: 54 per cent predicted an economic disaster, and only 7 per cent thought that the existing political system would survive until the year 2000.[3]

These data have an interesting counterpart in studies of the opinions of the Komsomol youth: 10 percent declared themselves for socialism, 19 percent for capitalism, and the rest declared that they no longer believe in any "isms."[4]

Gorbachev

One can hardly assign blame to an abstract system or show indignation toward the dispensations of History. The natural tendency is to look for those who can be identified as guilty and to personalize the existing evil. It was Mikhail Gorbachev, president of the State, who necessarily fell victim to this tendency. He was being criticized from the left and from the right, and most often from both sides at the same time, for almost everything (his critics not bothering about contradictions in what they said): for his declared fidelity to "the socialist option" and for wasting the achievements of socialism, for the old evil and for the new one.

The tendency to attribute the changes in the Soviet Union to Gorbachev's personality was also apparent in the United States. The two rival schools of Sovietology, that which promoted the "totalitarian model" and the opposing, and now dominant, "revisionist" school, assumed the essential stability of the Soviet system: the durability of either its totalitarian features or its potential for organic evolutionary development. Neither school foresaw the scale of the problems revealed during Gorbachev's term of office, neither expected a "revolution from the top," and neither wanted to believe that the system was weakening, collapsing, and escaping control. At the December, 1990 Congress of AAASS, the American Association for the Advancement of Slavic Studies, Stephen Cohen, a leading "revisionist" and author of a well-known book on Bukharin, admitted that the recent developments had delivered a blow to the prestige of American Sovietology. But this admission was firmly opposed by one of the participants, who defended Sovietologists at the cost of Gorbachev. His thesis was that it

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had been impossible to predict the appearance of a factor so irrational as Gorbachev, a leader who destroyed the system he was supposed to defend. This declaration was marked by a tone of distaste for the author of "perestroika," whose irresponsible behavior spoiled the reputation of the American Sovietologists, destroyed their theoretical and methodological constructs, and practically called into question the very existence of the discipline.

That opinion, which quite well reflects the professional frustrations of a part of the Sovietological milieu, was, of course, not political in character. From the politological point of view American Sovietologists were still divided into a right and a left (or center-left), superseding the old division between the "totalitarians" and the "revisionists." For the right wing, the failures of perestroika are a source of satisfaction as they confirm the essential unreformability of the system (as opposed to the republics). The center-left, on the contrary, wanted to believe in the success of reforms covering the Soviet Union as a whole, but did not see political forces which could carry them out more effectively than Gorbachev.

The latter view was reflected in Cohen's article "Gorbachev Fights for Reforms"[5] written especially for the official organ of the Soviet government and with full awareness that it would be repudiated by the overwhelming majority of the Russian intelligentsia. Cohen argued that Gorbachev's achievements were enormous: in 1985 no one would have dared to suppose that the Soviet Union would change so much. But great reform of the entire system cannot be expected to bring positive results immediately. America's "perestroika," that is, the New Deal, took as many as thirty years, and Gorbachev's challenges are much greater. Shatalin's "500 days" plan was economic adventurism, which would not be accepted by conscientious voters. Gorbachev is still the Great Reformer and nobody can replace him. The dislike for him shown by the Russian intelligentsia is unimportant, marked as it is by a "narrow horizon," antidemocratism, and "anti-Western moods" (literally: "Oni nastroyeny protiv Zapada i potomu ne vynosiat Gorbacheva").

Let us now listen to the voices of the other side, beginning with the most extreme ones. We have to bear in mind their context: they spoke in reaction to Gorbachev's "turn to the right" in the fall of 1990 and the massacre in Vilnius in January 1991.

The shooting in Vilnius took place on January 13, 1991. On the same day Elena Bonner, the widow of Andrew Sakharov, asked the Nobel Peace Prize Committee to strike her late husband's name from the roll

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of prize winners: it could not appear on the same list with the name of Gorbachev, responsible for the bloodshed in Lithuania and in other republics.[6] Similarly, Valeria Novodvorskaya, the leader of the Democratic Union party, called Gorbachev a "fascist criminal," a virtual invitation to reprisals. When accused of having insulted the president, she declared that she would be happy if she died in a Soviet prison in order to soil Gorbachev's perestroika with her blood.[7] Fortunately, the court came to the conclusion that the president had not been insulted.

Among tentative theoretical diagnoses, mention is due to M. Leontyev's article in *Nezavisimaya Gazeta*.[8] He argued that Gorbachev was seeking the transformation of the Soviet Union into a fascist corporate state. It is in this light that one should see the combination of the "socialist option" with Gorbachev's *de facto* alliance with the nationalist right, his support of commercialization combined with statism, and also, of course, his defense of the empire and the "officialization of the Orthodox Church," which serves the same purpose. Leontyev voiced doubts whether Gorbachev would succeed in becoming a Russian *duce*, but in his opinion he might well end up playing the role of a Russian Hindenburg.

This should not be taken as representing the standpoint of the editors of *Nezavisimaya Gazeta*. It was merely a voice in the discussion. Most of the discussants were convinced that Gorbachev should be replaced by Yeltsin.[9] One of the contributors, V. Glushin, even appealed to Gorbachev to resign in order to avoid confrontation.[10] But the most interesting contribution to the discussion was made by V. Tretyakov (editor-in-chief of the paper) in his "The Apology of Gorbachev or the Epitaph for Perestroika."[11] He argued that perestroika had exhausted its possibilities and that the country was entering the period of "post-perestroika"; at the same time he stressed, first, that one should not underestimate the positive results of perestroika and, second, that the content of "post-perestroika" would largely be determined by Gorbachev himself. The initiative for further change must be taken up by the democratic movement, but Gorbachev as president may become a loyal partner of that movement. Hence Gorbachev is to be defended, and people should not join the right in its personal attacks against him.

The positive results of Gorbachev's policy, both intended and unintended, were classed by Tretyakov into three groups totalling 46 points. The positive results in international politics include, among other things, dealing a probably lethal blow to totalitarianism, smashing the world communist movement, the liberation of East-Central

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Europe from the "Soviet occupation," the unification of Germany, etc. (13 points in all). In domestic politics he made a distinction between positive results which are destructive in character, and constructive ones. In the first category he included the destruction of the foundations of totalitarianism in the Soviet Union, the destruction of the Soviet Communist Party as a party of the "conspiratorial" (read: Leninist) type, the weakening of the empire and of the imperial style of thinking, and the disavowal of the most hated dogmas of Marxism-Leninism. The constructive results included the immense broadening of civic rights and liberties, unprecedented in the Soviet Union; the emergence and legalization of political opposition; the minimization of recourse to violence; the striving for "honest political struggle"; the liberation of culture; advancing the idea of the transfer of land to the peasants; and the *de facto* freeing of the republics from dictatorial control by the central authorities.

Not all of Tretyakov's 46 points, especially those in the last groups, were equally convincing. For instance, one could argue whether Gorbachev had in fact succeeded in his "rapprochement with the intelligentsia" and his "renewal of the cadre." On the other hand, however, some of Tretyakov's ideas were suggestive and not in the least self-evident. For instance, point 36:

> Gorbachev has forced the *nomenklatura* publicly to fight for the retention of its power, and thus practically included it in the reformist activity. That is so because a public struggle, even if it is only over power and privileges, is a civilized, and not a conspiratorial, mode of political action, and as such it contributes in the last analysis to the consolidation of reformist activity.

Tretyakov's conclusions were sound because the Soviet Union was *already* in a post-totalitarian but also (in a certain essential sense) in a postcommunist phase. "Post-perestroika" would thus be not only a "new beginning" but also—and primarily—a continuation of the breakthrough initiated by perestroika. For Gorbachev was entirely wrong (or perhaps only wanted to deceive his party comrades) when he presented perestroika as a continuation of Lenin's policy in the NEP period. NEP was only a temporary retreat, whereas perestroika was a total abandonment of the communist utopia, the capitulation of communism as an ideal. For communism, and above all Marxist communism, is a vision of an economy which is completely marketless and commodity-free, organized as "single large factory." In that ideology the market is enemy No. 1, older than capitalism as a mode of production, and in fact already being eliminated *under* capitalism: at first by

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the planned organization of work in large factories, and later by the gradual undermining of market relations by capitalist monopolies (Bukharin's and Lenin's "state capitalism"). The archaic fear of trade and production for an unknown customer was raised by Marx to the rank of philosophy by treating freedom as the conscious control of collective fate, and the market as leaving man to the working of blind forces, and hence as the total denial of freedom. It is therefore a contradiction in terms for a "communist" to advance a program of "marketization." If many leaders of communist parties have now forgotten this, it is only additional proof of the vanishing of all remnants of communist mythology.

But let us return to the situation in the Soviet Union last spring. When seen up close on a daily basis it looked, of course, otherwise than it did when seen at a distance and in perspective. Both views should be taken into account: both a lack of distance and its excess may be misleading. So I asked whomever I could to explain the causes of the firmly negative attitude towards the president which was typical of the Russian intelligentsia. Very often I received purely emotional answers, such as the statement that Gorbachev is in fact merely a churlish *apparatchik* who cannot even speak standard Russian. Not surprisingly, reference was always made to the desperate and deteriorating economic situation. When I replied by mentioning the positive results of perestroika, referring to Tretyakov's points, people usually responded by voicing reluctant half-assent. I also tried to study reactions to the claim that the economic disaster was not an unmitigated evil, that by demonstrating the hollowness of the administrative command economy, it could enforce a radicalization of the reforms. Against this argument, an activist and theorist of the democratic movement replied that the economic disaster does not accelerate the process of reform—on the contrary it works as a brake and offers opportunities to advocates of the old system.

"The Right"

The concepts of the left and the right are used in the Soviet Union differently than in either the West or Poland. Communism is considered by Soviets to be the right (even though Communists were inclined to consider themselves the center: see the speech of the Russian Communist leader, I. K. Polozkov, of March 6, 1991), whereas the advocates of consistent marketization are called leftists. The concept of

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"the left" has retained a positive connotation for the intelligentsia: few people want to be classed as being on the right, but they still struggle to be included in the left. Gorbachev's comment that by European standards communism means the left and free-market liberalism means the right evoked genuine indignation.

But there is more to it than that. In the Communist parties of the Soviet Union and of the Russian Republic, there had emerged a strong, genuinely rightist, conservative and imperialist tendency ready to ally itself with the classical monarchist and nationalist right. This coincided with growing public disillusionment over the results of perestroika, forcing Gorbachev to move to the right. The radical wing of the opposition was, of course, inclined to treat Gorbachev himself as a rightist. That was convenient in particular on the eve of the March 17 referendum, because it made it possible to reduce all political divisions to the simple dichotomy: for or against, Gorbachev or Yeltsin? But the real lines of division were different.

Let us begin with the extremists, communist and nationalist.

The editors of the periodical *Ogonyok* in its issue of March 9–16, 1991, honored Women's Day by publishing the opinions of two women on the approaching referendum: those of Elena Bonner and of Nina Andreyeva, the standard-bearer of the old communist orthodoxy.[12] The former called for a boycott of the referendum as a "new dish prepared in accordance with old recipes," while the latter called the referendum a "blasphemy" but nevertheless exhorted the readers to vote "for" in order to stop the "brown forces" intent on destroying the Soviet state. She emphasized that a yes vote would not mean supporting Gorbachev. Gorbachev and Yeltsin are essentially one and the same thing, "two shoes from the same pair." Both are fascinated by capitalism, and both seek to dismantle Soviet socialism. The difference between them is merely tactical in character.

The same thought, delivered even more sharply, was expressed in the short film "Treason," shown on Aleksandr Nevzorov's March 15 Leningrad television program. Here is what I succeeded in recording:

> What is taking place is not a mistake. It is a crime, it is high treason. Gorbachev and Yeltsin are cards from the same deck [the film shows cards with the faces of both leaders]. What does the so-called conversion of the arms and space industry mean? Here is a dismantled tank factory which is now working only one hour per day. The workers and the management agree that this means treason: treason everywhere begins with matters related to national defense. Here is a factory which at one time produced space equipment; today instead of what was essential for the strength of the

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> state it produces trifles or just nothing, and skilled workers had to seek jobs in private cooperatives. We were victorious in the war [the film shows the proud victory parade in Moscow] but today we have betrayed that by resigning all fruits of our victory. [Next follows a series of quasi-allegorical scenes: people with eyes screened by newspapers overturn posts marking the state frontier, a woman who personifies Russia dances a cancan, and the expected result is symbolized by skeletons. Then comes a conversation with a general:] What will occur if nuclear weapons spread all over the country and fall into the hands of republics which have, in the meantime, gained independence? [The general does not admit such a possibility:] The people themselves would prevent that. But for the time being treason is spreading everywhere.

Nevzorov considered himself a monarchist but he propagated an alliance with "the sound forces" of the Communist party. His program ("Novosti") was said to be funded by the military-industrial complex. He paid much attention to the disruptive influences of the West (including that of modern art) and stressed the need to oppose them with the spiritual values of Orthodox religion. He won great recognition on the right for his act of civic courage: an apologia for the soldiers who in Vilnius opened fire upon the crowd of Lithuanians.

A similar ideological syndrome was of course represented by the notorious association called Pamyat (Memory). The number of articles published about it in the West allows me to assume that it is sufficiently well known. I shall accordingly concentrate my attention on another example of rightist and nationalist ideology, namely the weekly *Domostroy*, published (in 100,000 copies) by the Moscow committee of the trade union of building workers.

The title *Domostroy*—which evoked associations with both housing construction and the preservation of order in one's own home—referred to the book bearing the same title which was published in Moscow in the mid-sixteenth century as a *sui generis* encyclopedia of family ethics and household management. The weekly presented its readers with comprehensive fragments from that monument of old Russian literature, recommending them as effective antidotes to the disruptive influences of the West. One of those fragments explains why and how one should beat one's wife. We learn from it that this must be done in a truly humanitarian way, without humiliating her by the presence of third parties and without using hard objects that might cripple her. A good husband beats his wife with a scourge when no one else is present, and after the operation makes it a point to console and snuggle with her.[13]

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The ideology of *Domostroy* can be defined as Orthodox nationalism tinged with Panslavism, yet it was on good terms with the Russian communist right. It contended that Russia cannot be accepted selectively; it must be taken as a whole, that is with "cabbage and kvass, Peter the Great and Belinsky, Stalin and Solzhenitsyn."[14] Communism does not express the Russian national character, but the Communist Party of the Soviet Union is today a patriotic force; hence one can make an alliance with it in the struggle against "non-Russian radicalism," the democratic "yellow press" and the miasmata from the West (which include such poisons as Cinzano and port).[15] The alliance with the old communists allowed academician B. Struminsky to use *Domostroy's* pages to condemn Gorbachev's departure from "the only correct ideology" and the resulting spread of "a pluralism of opinions and antiscientific tendencies."[16] The editors' own ideology was best reflected in articles dedicated to Dostoyevsky and Konstantin Leontyev. The latter—an outstanding ideologist of the extreme nineteenth-century Orthodox and Byzantine reaction—was praised to the heavens for his defense of the autocratic power of the Tsar, for his opposition to disruptive Western liberalism and anarchy, and for warnings against democratic nationalist movements as carriers of Western influence and mortal threats to the empire.[17] In the eyes of the editors, Leontyev's warnings found gloomy confirmation in "the deplorable and miserable picture of the decomposition of the Slavic countries in Eastern Europe and their political integration with 'Pan-Europe.'"[18] Russia will meet the same fate if it is not saved by an "awakening" of the working people.

The editors' views of international affairs were premised on conspiratorialism. Privatization in the Soviet Union is a plot by Western capitalists who want to seize control of Russia without a war.[19] NEP issued from a similar cabal. The war in Iraq was also caused by the profit-greedy West, and hence Russian patriots ought to support Saddam Hussein.

The democratic intelligentsia in Moscow treated such opinions as curiosities. But one could not fail to note that *Domostroy* was not the only periodical marked by a turn towards Orthodox and nationalist ideology combined with elements of xenophobia and a profound mistrust, if not outright hatred, of the West. Let us consider, for instance, *Nash Sovremennik*, the monthly of the Union of Russian Writers, which carried texts by Solzhenitsyn. Against "market experiments" it opposed the Christian traditions of the Russian nation, faithful to the values of village communities and hence unalterably set against West-

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ern commercialization and individualism. Marxism got off much more lightly: as a Christian heresy it deserves to be treated with indulgence (in a round-table discussion of "Christianity versus the problems of ownership").[20] Still, socialism must give way to "Christian economy" as preached by Russian religious thinkers, in particular by Sergei Bulgakov, whose *Filosofiya khoziaystva* (*Philosophy of Economy*, 1912) allegedly started "a new, higher, stage in the development of world economic thought."[21] Only a return to native sources will allow Russia to avoid the disasters of both Marxism and capitalism.

The editorial staff of the monthly included Igor Shafarevich, an outstanding mathematician and ex-dissident, author of a much-publicized book on the inevitably totalitarian character of all socialism.[22] His article "Russophobia"[23] became a sensation in 1989. He argued there—indirectly, to be sure—that the Jews are responsible for all the mishaps of Russia. This is an instance of a universal phenomenon: the struggle of "the little nation," that is, the revolutionary minority, against "the great nation," i.e. the overwhelming majority of society. In Russia's case, he suggested, "the little nation" consisted mainly (though not exclusively) of Jews, so that the collapse of the Revolutionary experiment is interpreted by the Jews quite differently than it is by native Russians. It is the Jews who are now the greatest enemies of all manifestations of the Russian national revival.

The exchange of opinion on the article continued beyond my spring visit. The left responded with indignation, the right with understanding. The national-Bolshevist *Young Guard*, which for years had specialized in "the Jewish issue," used the controversy to great effect.

The "Communists"

The Soviet "Communists," that is both the Communist Party of the Soviet Union and the "Russian Communists," organized in a separate party, were often classed as the right, but they deserve a separate discussion. Their "communism" was problematic, reduced to a nondescript "communist perspective" which imposed no ideological obligations whatever. That is why from the point of view of a historian of ideas they were at most communists in quotation marks. Their strength consisted in their large number (some 16 million members) and immense property holdings, which they tried to invest in banks and enterprises. But they no longer articulated a living ideology, much less an organized ideological power. Deprived not only of a coherent

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ideology but of outstanding leaders as well (for Gorbachev had in fact attained a supra-party position), continuing on mainly through inertia, the party's self-interest placed it on the center-right, but outright rightists also had a loud voice in it. The latter included the leader of the Russian communists, Ivan Polozkov (who had called for the rehabilitation of the concept of conservatism by recalling that that name was claimed by such leaders as Margaret Thatcher and Ronald Reagan). There was also still a leftist faction of the Communist Party of the Soviet Union, which tried to free the party from the grip of the "new class" and sought dialogue with democratic forces.[24] Eduard Shevardnadze was still a member of the party, but it was reasonable to suppose that he and a large group of followers would bolt once conditions were ripe for the formation of a postcommunist social democratic party. [Soon after this was written in May, Shevardnadze renounced his party membership and founded a broad Movement for Democratic Reforms. He did not call it a "party," so as to encourage participation in it by members of the Communist party.]

The ideological confusion in the Communist Party of the Soviet Union was illustrated, among other things, by its increasingly ambiguous attitude towards Lenin. *Pravda* marked the anniversary of his birth by reprinting an article about him written by Bertrand Russell, who argued that Lenin was a narrow-minded fanatic but nevertheless deserves to be called a great man.[25] An equally ambiguous position was taken by the official TV news program "Vremya," which on April 19 urged people to assess Lenin from "a position of historicism," not as a "communist messiah" but as the founder of the state and a man of good will who cannot be held responsible for today's crisis. At the same time the democratic press criticized Lenin without scruples. *Stolitsa* even published a photomontage showing Lenin in the company of his "friends, adherents, and most faithful allies," namely Adolf Hitler, Fidel Castro, and Saddam Hussein.[26] Against that background the article in *Pravda* and the TV news presentations can be treated as defenses of Lenin. But one could hardly fail to note that they were defenses full of reservations and were markedly cautious.

Particularly eloquent and significant was the statement made on the TV news that the ideology of the Communist Party of the Soviet Union "is only now in the making." There was no elaboration but the meaning was self-evident. Leninism was an ideology which had its own party, and hence the party served the ideology, and not vice versa. Today the party as an organization which has a definite historical experience and particular interests is in search of an ideology that

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will best serve its members. Leninism already belongs to history, hence the Communist Party of the Soviet Union need not feel restrained by its dogmas.

A good description of the real state of the ideology of the Communist Party of the Soviet Union was to be found in an article published in *Stolitsa* by V. Shostakovsky, former rector of the Higher Party School and vice chairman of the Republican Party of the Russian Federation. He wrote about the dictatorship of the communists in the past tense and argued that its restoration was possible, but only in a mild form and for a short time.[27] He added that the "communists" have in fact long ceased to be communists and Marxists. They have rejected all ideas of Marxian communism: class struggle, worldwide revolution, the withering of the state, and a marketless economy. References to a "return to the sources," "the socialist option" and "the communist perspective" are merely empty words, a manifestation of narrow-mindedness or political cynicism. Communism has died with no chance of resurrection.

From the point of view of the history of ideas, and *a fortiori* from the point of view of the socio-political history of the Soviet Union, this was, I think, a correct diagnosis. That fact must be considered by both the surviving communist ideologues (whose number in the Soviet Union and in Europe seems to be tiny) and by obsessive anticommunists.

Among the intelligentsia the ideological and moral discredit of the Communist party was so obvious that nobody was willing to engage in any discussions on the subject. A defense of the party was possible only for pragmatic reasons, such as its transnational character or the professional skills of the members of the nomenklatura. The issue of the moral responsibility of individual party members for the past was often viewed differently than in Poland: with greater indulgence of what they did under the impact of terror and ideological hypnosis.

General public opinion was naturally less unambiguous, but was in fact equally crushing. The seemingly powerful Communist Party of Russia enjoyed the support of a mere 6 percent of the voters, whereas the number of its opponents reached 34 per cent. The Democratic Party of Russia, by comparison, with only 25,000 members, had the support of 30 per cent of the voters and was opposed by only 14 per cent of them; even the tiny party of Russian Constitutional Democrats enjoyed as much support as the Communists, and had half the opponents.[28] Even more instructive are the data on the people's attitudes towards socialism: it was treated as the only just road by only 4

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percent; as a road which leads people astray and must be abandoned as soon as possible, by 23 percent; and the remaining respondents voiced intermediate opinions, for instance that it is not clear what socialism really is (23 per cent) or that true socialism has been built in the West while the Soviet system is not socialism (19 percent).[29]

One may thus say that the Communist Party of the Soviet Union was before the coup only a powerful coalition of interests, but hardly a party of the Leninist type. There was no more Draconian discipline, suppression of factions, or quasi-military organization; nor was there obviously a coherent and all-embracing ideology incessantly corrected and controlled from the top. It was thus no longer a party marked by "united will," a party which commands respect and awe and is capable of controlling the people but also exerts an ideological pressure upon it.

The ideologists of the imperial right—especially those from the group of so-called black colonels—saw this clearly enough and thus did not count upon the Communist Party as a whole. Colonel Viktor Alksnis, leader of the Soyuz group, considered in public the necessity of power being transferred to a Committee of Public Salvation (with the participation of the democrats, but without Gorbachev and Yeltsin), which would introduce a market economy after having suspended the activity of all political parties, including the Communist Party of the Soviet Union.

Soyuz, active both in the parliament and outside it, was the main organizational form of the statist right. Next to the "communists" it included monarchists and "liberal democrats" from the party headed by V. Zhirinovsky.[30] They were linked together by the idea of "saving the mother country," i.e. defending the integrity of the state. Most democrats treated Soyuz as the last bulwark of communism. But it might have been better interpreted as proof that the Communist Party of the Soviet Union was no longer capable of providing leadership even to those forces which were striving to save the empire.

The Democratic Opposition

The democratic opposition in Russia consisted of people who were deeply disappointed with perestroika, showed sympathy to the centrifugal aspirations of the various republics (especially Lithuania), and thought that "Gorbachev's Soviet Union" should fall apart as soon as possible and give way to radically new forms of state organization. They could hardly be unambiguously classed as "the left," even though

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they were usually inclined to style themselves as such. On many issues their opinions came close to those of the Western right, for example, their great admiration for Margaret Thatcher and Ronald Reagan. But the line separating them from the traditional Russian right was very clearly marked: they rejected the "imperial idea," opposed Russian nationalism, and had reservations about the Orthodox Church, which was considered (not without reason) an ally of the "imperial" forces.

The democratic opposition also included a few people who can be classified as radical leftists in the Western sense. I mean, above all, Boris Kagarlitsky's Socialist Party—a small group which boldly swam against the current, criticizing "market fetishism" and proclaiming the need to return to the broadly conceived Marxist tradition. It proclaimed that radical reforms must affect not only the sphere of distribution but also the sphere of production, management and ownership; hence it was very critical of traditional social democratic politics and openly hostile to liberalism. Its leader was the author of several books which pay homage to Western Marxism and try to re-think the experience of the New Left.[31] This won him much acclaim among left-wing Western intellectuals but, at the same time, isolation within the Russian movement. Whether we like it or not, from the point of view of the mainstream democratic opposition in Russia Kagarlitsky's party was marginal and barely visible.

From the point of view of the "centrists," i.e. Gorbachev's followers, *all* democrats could be blamed for impatient radicalism and demagogic populism, thus repeating the errors of Bolshevism. One of the members of the Supreme Soviet declared plainly: "We, centrists, are cadets, and contemporary democrats are Bolsheviks."[32] The intention of such parallels is to emphasize that the center represented political moderation and an evolutionary transition to a "law-based state," whereas the democrats favored the revolutionary destruction of existing structures. The democrats, quite understandably, saw things differently: they proposed a radical break with the legacy of Bolshevism, of which they accused Gorbachev, who at the very least seemed unwilling to bring about an "antisocialist revolution." But on the latter point there was agreement from the self-styled cadets.

A lecture given by the democratically elected mayor of Moscow, Gavriil Popov, on February 5, 1991 at Notre Dame University in Indiana, described the existing situation as a kind of stalemate: the conservatives could not solve problems while the country faced famine, whereas the democrats could not seize power and responsibility for the state. There were accordingly three possibilities: chaos, gradual

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decomposition of the center-right coalition then in power or the emergence of a parallel center in Russia.

At the reception after the lecture I asked Popov about what he thought of the idea that a non-totalitarian (or post-totalitarian) authoritarianism might be necessary to begin the intricate process of the transition to democracy. He replied that he in principle accepted this but in reverse order: it is true that the market economy can be introduced in Russia only by authoritarian methods, but, on the other hand, the existing structures of power can be overturned only in a political struggle waged with democratic slogans. In other words, democracy first, and enlightened authoritarianism next.

I thought about that conversation when watching the great pro-Yeltsin demonstration on March 10. The flags around us—Russian national flags next to Lithuanian and Georgian ones—protested against the continuation of the empire. Posters declared that socialism is the "opium of the people" and that "a humpback can be made straight only in his grave" (in Russian this was a pun alluding to Gorbachev's last name). The speeches, delivered among others by Popov, Yuri Afanasyev, and Nikolai Travkin, leader of the Democratic Party of Russia (Yeltsin's absence was explained by illness), openly called for a "war" against Gorbachev, referred to the exhaustion of parliamentary measures, announced a universal political strike, and naturally urged a "no" vote in the referendum concerning the further existence of the Soviet Union. A striking miner from the Kuzbas region compared the strikers to kamikaze who deliberately chose death in order to save their nation. At the same time he voiced his indignation at the fact that the mines are "owned" (by the Ministry of Industry), argued that the workers could do without all "bosses," protested against price increases, and firmly demanded the full indexation of wages. The politicians who spoke at the meeting could not fail to understand that they were confronted by an anarcho-populistic attitude, incompatible with the requirements of a transition to the market economy. They must have foreseen this, which was why they abstained tactfully (or tactically) from all references to marketization.

This well illustrated the difficult options Russian democratic politicians faced. With whom could they ally in order to attain their goals? An alliance with the reform-oriented part of the nomenklatura, even in the name of a radicalization of perestroika, would be interpreted as a holy alliance against the desperate people. Unreserved support for the striking workers, however, would mean following the anarcho-syndicalist path, which would destroy all hope for a market economy,

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thus inviting an economic disaster. In order to preserve their own political identity the democrats might have pursued a policy of compromise in order to be the balance of power. This would have required consolidating their own credibility in the eyes of the striking workers while neutralizing a large part of the nomenklatura, availing themselves of the immense dissatisfaction of the population while not encouraging the revolutionary logic of radicalism.

When this was written in May 1991, it did seem that events had gone in just that direction. The results of the referendum held on March 17, which extended support to both Gorbachev, who favored preserving the union of the republics in a modified form, and Yeltsin, who favored making Russia independent; the restraint with which Yeltsin's anti-Gorbachev policy was received in the West; the countervailing support given Yeltsin by the Congress of the Deputies of the Supreme Council of Russia; all these developments combined to produce a crystallization of forces and a certain abatement of tensions. The agreement of April 23 revealed which republics (nine of them) wanted to stay in a reformed union, and which (six of them) firmly insisted on leaving it; it also made it known that Russia was not in the latter group. The democrats saw more and more clearly that they must win over a considerable part of the mid-level apparatus, which could—unlike the top tiers of central authority—retain its position in a situation marked by sovereign republics and a market economy.[33] There were rumors that the democrats would try to come to terms with representatives of the military-industrial complex, for which power in the hands of the center-left coalition would be a lesser evil than a chaotic destabilization of the state. Meanwhile, the democratic brain trust was working on a program for the transition period. It would consist in the greatest possible separation of the politics of independent and systemically differentiated states from the economy, which would be an area of cooperation and market integration, after the pattern of the European Economic Community. The presidency would be reserved, during this period, for Gorbachev, but on the condition that he would be cut off from "the mafia of the center."

Thus the seemingly irreversible radicalization so strongly evident on the eve of the referendum in March had been replaced by an armistice and the search for a rational compromise. This is why the unprecedented price increase of April 2—which raised living costs as much as two-and-a-half fold—was not used by the opposition to radicalize the masses; paradoxically, it triggered the strongest protest in previously quiet Byelorussia. The revolutionary situation in Kuzbas was miti-

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gated in a very simple manner: the miners accepted the jurisdiction of Yeltsin's Russia and dropped political demands that had been addressed to the central authorities (including the demand that Gorbachev resign). Yeltsin and the political elites supporting him clearly had some ability to influence the course of events.

The "Anti-Politics" of the Opposition

The number of the obstacles on the road to normalizing political life in Russia is, obviously, enormous. But it is not always understood that those obstacles include not only communist indoctrination, so much stronger than in Eastern Europe, but also various forms of reaction to that indoctrination, including a moralistic fundamentalism and a profound disbelief in the possibility of real change, even in change that has already taken place and seems undeniable. This might be termed the Russian form of the "antipolitical" mentality.

This mentality places such a high premium on rejecting the system emotionally and morally that rational analysis becomes impossible. Changes in the system go unnoticed, as do changes in oneself. Aspirations grow more quickly than the possibility of their satisfaction, making changes for the worse that much more inflammatory and the achievements of perestroika and glasnost that much more invisible. In this frame of mind, many came to believe that "nothing had changed" in Russia: totalitarianism continued to function because life was harder and harder, both materially and morally. The observation that there was no longer totalitarian indoctrination, that there was genuine freedom of conscience and freedom of speech was treated as a manifestation of Western "Gorbimania."

This mindset is familiar from the history of the nineteenth-century Russian intelligentsia, as well as from the socialist critique of "bourgeois" freedom—as freedom which is merely "formal" and does not guarantee satisfaction with life or a material basis for development. Members of the old Russian intelligentsia who visited the West were, as a rule, quickly disappointed with the freedom they saw there, and even denied its very existence, because they confused individual freedom with social emancipation, with a lack of oppression and poverty, with opportunities for unlimited self-realization. In that sense there was, of course, no freedom in the West. And an illegal immigrant who now comes to, say, Chicago and has to work on the black market for labor, being exposed to a merciless exploitation, will find even less

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freedom in present-day America. Yet liberal freedom, which begins with freedom of conscience and of speech, is *the* most fundamental freedom, valuable and irreplaceable even if it is not accompanied by material and moral satisfaction. This was not understood by the Russian *narodniki* and anarchists, but it *was* understood, for instance, by Aleksandr Herzen, who was otherwise a merciless critic of the liberal conception of freedom. In his opinion, the "bourgeois" West in the mid-nineteenth century did not solve any social problems, did not offer any answers to questions about the meaning and value of life, did not even put into practice the "purely formal" demands of political democracy, but it nevertheless—unlike Russia under Tsar Nikolai—endowed the individual with fundamental freedoms, such as, for instance, the priceless gift of freedom of speech. And just this sort of argument could be made about the immense and too often underestimated difference between Gorbachev's Russia and that of a mere decade ago.

Astonishment at the Russian intelligentsia's denigration of the achievements of perestroika was not confined to foreigners. From time to time it was a matter of reflection for Russians, too. For instance, V. Kondratyev contended that the Soviet Union was characterized by "repressive tolerance" (Marcuse's term for the realities of American life), and hence was essentially different from totalitarianism: previously it seemed that the publication of Solzhenitsyn's *The Gulag Archipelago* would result in the immediate collapse of the system; but when the book became accessible almost everywhere, it changed nothing in the routine of everyday life.[34] V. Sokolov accused his compatriots of glaring ingratitude to Gorbachev: "That man literally speaking raised the whole huge nation from its knees. We now stand erect. And now with Bolshevik enrapture we are spitting in his face."[35]

But such objections did not still the voices of sharp, almost nihilistic criticism of perestroika. Their main motif was the argument that the *moral* situation of the Russian intelligentsia had deteriorated. This opinion was voiced not only by those whom perestroika and glasnost deprived of their last illusions about the nature and the achievements of socialism, but also by those who claimed never to have had such illusions. Here is, for instance, what I heard from an intellectual from the older generation, representing the exact scientists:

> Before perestroika we enjoyed psychological comfort, consisting in total non-participation and the resulting internal freedom. We lived in the family and within a closed group of friends. When speaking in public we used the

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> language of the official ideology, but we did that with contempt, treating it as a sort of a grotesque ritual enforced by terror. We did not feel responsible for the people because we saw in it a participant in the crimes of the system, a collective criminal. Today we can no longer live as internal émigrés, we cannot close ourselves up in our internal world looking at the life of the country as at something which practically does not concern us. At the same time we cannot stand the lies, half-truths, and immoral masquerades which surround us on all sides. We appreciate the achievements of glasnost, we enjoy manifestations of the intellectual awakening, we even note considerable advances in political culture. But there has been no moral purification. We still see everywhere a sea of intellectual and moral falsehood. The falsehood of yesterday was total and grotesque, and that was just why it did not practically threaten our identity. It was something completely external to us, and hence something much easier to bear. But against the falsehood of today we must defend ourselves by mobilizing all our psychic energy.

My younger interlocutors shared the opinion that the moral situation had deteriorated, but substantiated it differently. They claimed that an unintended result of Gorbachev's reform was a total delegitimation of the system, the collapse of all possible consolations and justifications, all illusions about the ultimate meaning of those terrible sufferings which the Russian nation inflicted upon other nations and (above all) upon itself. And if the system has proved to be criminally bankrupt, then why do the representatives of the party which had created it still exercise power and still try to defend it? In what respect are the Communists better than the Nazis? Should they not be brought to a court analogous to the Nuremberg Tribunal? Do the market-oriented reforms not serve the interests of the nomenklatura, which in this way hopes only to free itself from ideological servitude? Will they not result in "communist capitalism" or even "totalitarian capitalism"?

Such ideas were voiced not only in conversation but also in print and even in the mass media. The parallel between communism and Nazism was expanded by Oleg Kalugin.[36] A demand for an analog of the Nuremberg Trial for activists and ideologists of Soviet communism was made on the TV program "Monitor," broadcast in Leningrad on March 24, 1991.

But such demands were rejected by the opposition itself. Stanislav Shatalin said, for instance, that Russia needs its Sermon on the Mount more than its Nuremberg Trial.[37] The nomenklatura was still numerically large and powerful, capable of defending its interests, and few wanted a revolution or a civil war. Moreover, many of its members possess a considerable store of experience and other professional competences. It is often said, accordingly, that a pragmatic compromise is

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necessary, that people will have to live together with the nomenklatura once it is deprived of its caste privileges, and that the "privatization of the nomenklatura" is in fact good because the market will grind those who submit themselves to its laws, and will thus secure a nonrevolutionary transition to the new system.

But such a standpoint, undoubtedly reasonable, did not represent a full victory for political pragmatism. The oppositional intelligentsia still neither wanted, nor could afford, a total abandonment of moralistic "antipolitics." It demanded political options which would be moral options at the same time, and that is why it staked its hopes on Yeltsin, not on Gorbachev.

For a person like myself who visits Russia with both the West and Poland in mind, the wisdom of this was far from evident. In the worldwide dismantling of Communism Gorbachev played an incomparably greater role than Yeltsin, and it is not clear whether Yeltsin, given the opportunity, would have succeeded in doing anything more. Moreover, it seemed that both politicians were taking part in the same historical process, playing different but, in the last analysis, complementary roles; the existence of both of them and the rivalry between them were needed.

However, the Russian intelligentsia finds it very difficult to think this way. It had to must make a choice that would be politically and morally unambiguous, and hence it could not simultaneously support both rivals. Powerful moral considerations were in favor of declaring oneself for Yeltsin: unlike Gorbachev, he ostentatiously dissociated himself from the entire tradition of Bolshevism, both communist and imperialist. For the democratically minded members of the Russian intelligentsia, that had a value in itself as a moral act which satisfied the elementary requirement of political decency.

Such was the situation in the early spring of 1991. The direction of further change will depend on the ability demonstrated by Gorbachev and the reformers in the Communist party to unambiguously disavow the past and to enter the path of consistent decommunization.

II. AFTER COMMUNISM: SEPTEMBER 1991

The extraordinary events that occurred since the spring of 1991 have completed the transition to postcommunism that was so much in evidence during my April-May visit.

In the Russian elections of June 12 Yeltsin won the post of the first

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president of the sovereign Republic of Russia. Soon afterwards he banished all party organizations from the workplace and from state institutions in Russia, thus cutting the very roots of Communist power. Gorbachev did not approve of this move but, nonetheless, his alliance with the democrats, formally concluded on April 23, at his Novo-Ogarevo meeting with republican leaders, withstood this test. The July plenum of the CPSU was expected to offer powerful resistance to Gorbachev but did not dare to do it; on the contrary, despite a few angry outcries, the party capitulated before the president, severely criticizing its entire past, renouncing all fundamental principles of communism (although, inconsistently, preserving its name), and pledging to transform itself into a democratic party, committed to political pluralism, the rule of law and a market economy.

This drastic break with Leninism, and, in fact, with communism in any meaningful sense of the term, was to be formally approved by the party congress in November. In the meantime—on August 20—the first stage of signing the union treaty, negotiated in Novo-Ogarevo, was to take place in the Great Kremlin Palace in Moscow. The first to sign were to be Russia, Kazakhstan and Uzbekistan; other republics (nine out of fifteen) were to follow suit in September and October. In this way the unitary Soviet state was to be peacefully transformed into a loose union of sovereign republics, having almost all the attributes of separate states. Gorbachev, known otherwise as a stout defender of a renewed union, saw this as a commendable compromise, the only alternative to chaotic disintegration. But conservative Communists, as well as imperialistically minded Russian nationalists, were bound, of course, to see it differently: as legalizing the final dismantling of *their* state, their world, their life-space. This perception was not necessarily emotional or ideological. Members of the higher echelons of the Soviet nomenklatura had many reasons to fear that the dissolution of the Soviet Union would entail the loss of their jobs, political impotence, and social marginalization.

The further developments are well known. On August 19 Gorbachev, working at his vacation retreat in the Crimea, was proclaimed "incapacitated" and ousted from power, while most members of his own cabinet, headed by Vice-President Gennadi Yanayev, constituted themselves into the "State Committee for the State of Emergency" and tried to impose military rule on the country. But this conservative coup, carefully cloaked as a legal action of the National Security Council, quickly proved to be a total failure. The putschists, although led by such professionals as KGB chairman Vladimir Kryuchkov,

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Defense Minister Dmitri Yazov and Interior Minister Boris Pugo (who had been openly preparing themselves for this role for a long time) acted clumsily and half-heartedly, without the necessary ruthlessness. Gorbachev did not yield to pressure to accept the coup; Yeltsin (whom the putschists could have easily arrested on the first day) manfully stood up to the challenge, giving direction to the unexpectedly widespread popular resistance; the armed forces fraternized with the population, making it clear that they would not fire at civilians; even the elite KGB "Alpha" unit refused to storm Yeltsin's "White House" in Moscow. Thus, the coup was defeated without physical struggle, by sheer force of civic disobedience. Gorbachev returned to Moscow as the legitimate president but most of the actual power passed to the hands of Yeltsin, who rose to the status of a national hero. After a brief moment of hesitation, Gorbachev quit as party head and banned the party from any role in ruling the country. The party's offices were sealed and its newspapers temporarily suspended. The compromised cabinet of ministers had to resign and was replaced by a State Council composed of Gorbachev and the leaders of the participating republics. In accordance with the plans mentioned in Part I, politics has been separated from economy: economic affairs are in the competence of a special committee, headed by the premier of the Russian Republic, Ivan Silayev.

A somewhat discomforting, although not unpredictable aspect of these developments was the possibility of conflicts with the Soviet parliamentary bodies. The executive power felt that the revolutionary character of the period of transition would not always be compatible with lengthy parliamentary procedures. It became evident that the Congress of People's Deputies had to yield its rights, or to be dissolved. As a result, the Congress effectively dissolved itself as the highest legislative authority by granting emergency powers for an undefined transitional period to the State Council.

Nobody could have predicted in the spring that the overthrow of Communist power would take place in August. Nevertheless, an analysis of this surprising outcome may be drawn from the kind of observations that were available beforehand. I have presented my view of the situation prior to the attempted coup essentially as written, in order to advance the argument that subsequent events are fully explicable in light of the irreversible successes of perestroika as well as its failures, which necessitated a more radical and conscious de-Communization.

This might seem to be a trivially commonsensical thesis. Unfortu-

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nately, in the eyes of a growing number of people it has become a controversial one, vastly exaggerating the importance of perestroika and thus reflecting "Gorbimania." In the view of these critics the period of perestroika and glasnost was, as Martin Malia has written, merely "six wasted years of failed reform communism"[38] and the real change came only with "an unambiguous and revolutionary break with communism," symbolized by Yeltsin.[39] According to this logic, the questions of freedom and human rights were of little importance in comparison with the Leninist question of "who-whom," i.e. of political power, irrespective of its formal or informal limitations (which are treated, as a rule, as unimportant concessions, if not mere illusions); hence the gradual dismantling of totalitarianism—a process initiated by Krushchev but radicalized and completed only after 1985—was of little importance in comparison with the revolutionary overthrow of the ruling elite, treated as unchangeably "communist" irrespective of its factual decommunization. In this way, the problem of communism becomes identified with the problem of the members, or former members of the nomenklatura, irrespective of their views and the character of their activity; consequently, the task of getting rid of communism is seen not so much as a matter of rejecting communist principles and methods, but, rather, as one of creating an entirely new political elite, composed of trusted anticommunists, as opposed to "communist reformers." The extreme form of this view can be found in Poland where a noisy (although increasingly unpopular) group of right-wing politicians campaigns for the elimination of the former nomenklatura members—including those who publicly renounced all semblances of communism—from all positions in public life, and even from business activities.

As was evident in the spring, similar views flourish in the Soviet Union as well. They emerged as a result of multiple frustrations and took the form of a truly nihilistic attitude toward the achievements of perestroika. A typical summary of such views was published a few days before the failed coup in the radical weekly *Stolitsa.* The most expressive passage runs as follows:

> The conclusion is unambiguous: despite all "excesses" of democratization we are living now in a much more Soviet and much more socialist society than six years ago. This outcome forces us to think that perestroika was never a retreat: from the very beginning it was an attack, cloaked under deceptive maneuvers. The context of Gorbachev's revolution, criticized by radicals of all camps, revealed itself in a wholly "dialectical" manner: more democracy—for some, more socialism—for others. For "people at the

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> top"—more economic independence and more freedom from political dogmas. For "people at the bottom"—more humiliation, poverty and death. In this way this grandiose political provocation, worthy of Ulyanov and Dzhugashvili, has completed its cycle.[40]

If it were really so, if socialism under Gorbachev became stronger and more pervasive, the right-wing coup would not have been needed; if, nonetheless, it did occur, its quick failure, followed by the restoration of Gorbachev's presidential power, would be totally incomprehensible, and the political victory of the radicals should be attributed to a miracle.

Needless to say, I do not attribute such notions to Malia. I only contend that his views stem from an invalid assumption which he happens to share with the quoted Soviet author: the assumption that Gorbachev-style reform communists are *communists nonetheless,* that they still hold "genuine Leninist" convictions,[41] that the real fight is being waged between communists (including "reformers") and consistent anti-communists, and, therefore, that Gorbachev's role in the process of turning away from totalitarian Communism was not very important compared to the role of Yeltsin; in other words, that the "August revolution" in Russia is much more important than all the previous years of evolutionary developments.

I concede that more discussion is needed on this matter, but at the present stage my own views remain basically unchanged. As Part I shows, communism in the Soviet Union was dead before the unsuccessful putsch; what remained of the Communist system was merely a fragile and empty shell which was doomed to perish, since Communism as a system cannot really survive communism as a living ideology. The Communist party was no longer Leninist; it had disintegrated and was incapable of any decisive action; as Shostakovsky argued, the Communist dictatorship no longer existed and its restoration was possible only in a mild form and for a short time. A right-wing coup was, of course, openly advocated in many quarters, and even progressive political scientists, like Andronik Migranyan, argued that the convoluted exit from Communist totalitarianism would have to lead through an "authoritarian stage." However, it was implausible to expect any possibility of a genuine return to totalitarianism. When I suggested the possibility that a coup might take the form of Polish "martial law"—that is, a mild and inconsistent form of authoritarian control, incapable and even unwilling to restore the *status quo ante*—my Russian friends thought I was unduly optimistic. But it turns out that

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Communism was entering the stage of its final collapse, an unavoidable result (partially intended and partially not) of Gorbachev's reforms; and that his political future did indeed depend on his ability to "unambiguously disavow the past and to enter the path of a consistent de-communization."

The rapid increase in Yeltsin's authority is understandable and inevitable. He embodied the hopes and aspirations of all radical anticommunists and the failed coup served (to quote Malia) as "the ideal catalyst" for a radical change.[42] It is also true that Gorbachev, after his return to Moscow, failed to immediately understand the new situation and instead of addressing the enormous meeting outside the Russian parliament continued to talk about reforming the Communist party. This initial error prevented him from getting due credit for his (and his family's) ordeal in the Crimea. But it was too quick to conclude from this that he became a spent force, or even (as Georgy Arbatov put it) "the major obstacle to reforms":[43] he corrected himself quickly enough and at the end of the month his popularity rose by 31.8 percent, reaching the quite impressive figure of 61.2 percent.[44] At the time of this writing the balance of forces is unstable but it seems clear that the president is not merely Yeltsin's hostage.[45] In the new situation the most important and delicate problem is the tension between the center, drastically weakened but still existing, and Yeltsin's Russia, which supports the aspirations of other republics but, at the same time, represents a potential threat of dominating them due to its size, population, natural resources and monopoly on nuclear weapons. Hence those republican leaders who want to preserve a "common economic space" and a minimum of political unity (such as a common foreign policy and defense) might well see that the center should retain some real power, capable of counterbalancing and containing the predictable growth of the relative strength of Russia. This means that Gorbachev might still have a political future: no longer as the leader of the Communist reformers but as the main focus of the moderately centripetal forces. Even Eduard Shevardnadze, so critical of Gorbachev's indecisiveness in the recent past, thinks now that "the center will hold" and that Gorbachev "still has the possibility to play a leading role in big-time politics."[46]

However, my intention is to issue neither predictions nor prescriptions. My task here is rather to offer a retrospective analysis in order to help formulate a judgment on the historical process which brought about the demise of Communism in Russia. From this point of view the problem of Gorbachev's—or, respectively, Yeltsin's—political

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future is not directly relevant. I have no quarrel with those who point out that Yeltsin, and not Gorbachev (who, after all, was under house arrest), played the central role in the "August revolution." I agree that Yeltsin's importance should have been noticed and recognized by the West at a much earlier stage. However, it is historically inaccurate to argue that the collapse of Communism was brought about mostly by those who attacked it from outside, like Yeltsin, and not from inside, like Gorbachev. Yeltsin was the creation of Gorbachev, not vice versa. It is utterly naive to think that the fate of the Communist system was decided by the fact that Yeltsin proved to be a courageous man who dared to address his followers from atop a tank. Despite its crucial importance in opening new vistas, the "August revolution" was a victory over an enemy in a state of agony, no longer capable of imposing his rule, or even of defending himself. If totalitarianism had not been dismantled—as it was under Gorbachev—the entire scenario of the August events, including the coup, would have been unimaginable. If the Communist party had preserved a small part of its earlier self-confidence, stemming from belief in its historical destiny and moral legitimacy, it would have given effective support to the putschists in crushing popular resistance. If the army and KGB had not been subject to the influence of an independent, democratically inclined public opinion, they would have had no difficulty in forcibly removing Yeltsin and his followers from the political scene.[47] The need for heroic legends is fully understandable and deeply felt in Russia but it is clear that popular resistance to the coup was not immediate, and that it grew only after it appeared unlikely that the perpetrators of the coup would resort to the most drastic measures.

The gradual disintegration and final collapse of totalitarian Communism must be explained, above all, in terms of objective factors, its socio-economic contradictions. But if we choose to single out the most important *subjective* factors, we can hardly overestimate the role of the Communist reformers. They might have been unaware, or not fully aware, of the final consequences of their actions, but notwithstanding, they played the main role in the destruction of the Communist system. The dismantling of Stalinist totalitarianism would not have been possible without them; this is obvious almost by definition since Communist totalitarianism, as long as it remained genuine, would not allow itself to be seriously threatened by openly anti-communist forces. And later, they undermined the very foundations of the communist ideology, completing (knowingly or not) the full journey from communism to postcommunism. At the July plenum Gorba-

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chev forced the party to reluctantly endorse this evolution. His adviser, Georgy Shakhnazarov, explained this act as tantamount to recognizing that the party must look for inspiration not only in Marxism, or even in the socialist tradition as a whole, but also in such "humanist and liberal" thinkers as Locke, Jefferson, Rousseau, Max Weber and Keynes.[48]

Despite some voices of protest, the resolution of the plenum amounted to a total ideological surrender, comparable to an act of abdication by a divinely appointed monarch (such as Tsar Nicholas II). This ideological capitulation was a long process, started by Gorbachev and completed well before the "August revolution."

Gorbachev's critics are right in pointing out that the coup was perpetrated not by the hard-line opposition but by the members of his own government, whom he himself had promoted to positions of power.[49] The implication is that his judgment was unsound, or even that the putschists had reason to expect that Gorbachev might legalize their action. There is some weight in this argument, but there is another side of the story. The very fact that the Committee for the State of Emergency did everything to preserve some semblance of legality, as well as the fact that it did not dare to take drastic measures, is a telling testimony to the successes of Gorbachev's perestroika as a *sui generis* "revolution in consciousness." It seems to me quite obvious that (to quote from *Time*) the putschists had been "corrupted, so to speak, by the new atmosphere of democracy and legalism—at least to the extent of feeling a need to give their coup a cloak of constitutionalism, which in turn prevented them from acting with the ruthlessness a successful coup generally requires."[50] We should add to this that the justification offered by the coup's unofficial ideologist, Chairman of the USSR Supreme Soviet Anatoly Lukyanov, was purely legalistic in nature. The signing of the new union treaty, he argued, should be postponed because the Novo-Ogarevo text was merely a statement of intention, contradicting the people's will to preserve a united state, expressed in the March 17 referendum; therefore, he contended, further discussion in the Supreme Soviet and in the Congress of People's Deputies was called for.[51] He pretended to oppose unlawful, revolutionary methods of political change without involving the ideals of communism and without attempting to mobilize the party.

The awareness of these facts is important because of a dialectical relationship between our assessment of the political intentions of the coup and our view of Gorbachev and his six years of leadership. Demonizing the coup, describing its aims as "fascist" or totalitarian (as

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is being done by Soviet radicals), leads inevitably to grave suspicions about Gorbachev himself and perestroika in general. How could it happen (we might ask) that he was surrounded by "fascist criminals"; how was it possible that his government was composed of unrepentant totalitarians? In fact, however, the putschists were neither old-style Communist hard-liners nor members of the new-right "Soyuz" group led by Colonel Alksnis. They were a part of the perestroika camp representing the interests of those circles of the industrial nomenklatura, the KGB and the army which expected Gorbachev's reforms to modernize and strengthen the Soviet state without endangering their own status as the ruling elite. We should not mythologize them: their deep disappointment with the actual outcome of the reforms is understandable and their wish to put an end to the rapid disintegration of the empire does not need to be explained with such sinister terms as "totalitarianism" or "fascism." The fact that in the fall of 1990 Gorbachev chose them as his allies is regrettable, but not incomprehensible: he moved to the right because of powerful pressure from the party (which at that time counted much more than it did a year later) and because of his own apprehensions about the rapid increase of left-wing radicalism. He corrected his error in the spring of 1991: Malia is right in describing the "Nine Plus One" deal of April 23 as his "capitulation to the left."[52] No wonder, therefore, that his former allies felt confused, threatened, or outright betrayed.

In other words, the proclamation of the state of emergency and Gorbachev's refusal to endorse it reflected the inevitable conflict *within* the camp of perestroika: a conflict between those who saw it as an intra-systemic modernization and those who reacted to the failure of its promise by opting for a radical systemic change (thus transcending the limits of perestroika in the original, narrow sense of the term). The coup was not a symptom of the vivacity and militancy of totalitarian-minded communist fundamentalism; it was rather a desperate, belated, surprisingly weak and inconsistent attempt to prevent the imminent collapse of the entire Soviet system.

Turning Inward

Yeltsin's victory is not seen everywhere as an unmixed blessing. Many in the West were alarmed by his authoritarian style and his populist disrespect for legal procedures. Some expressed apprehension that he might be willing to replace the Communist system with a new Russian

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empire.[53] Similar voices have been heard in Poland.[54] Yeltsin's threat that Russia might demand a revision of borders with those of the neighboring republics which want to form fully separate states increased these fears enormously. The threat was revoked when it became obvious that its implementation could lead to a civil war. Unfortunately, some reasons for doubt remained. Thus, for instance, Yeltsin publicly stated that the notoriously anti-Semitic "Pamyat" is internally divided and, on the whole, has changed for the better. Moscow liberals are concerned that this indicates a tolerance for chauvinism and xenophobia.[55]

To be sure, it is somewhat unfair to accuse the new Russia of attempting to revive the old imperial mission. After all, Russian power and influence are drastically shrinking everywhere and the Russian population has reacted to this with remarkable stoicism. It is amazing that so many Russians have been expelled from their homes in the national republics without being given any sort of compensation and, nonetheless, have not resorted to violent resistance. Bloody ethnic conflicts like those ravaging Georgia, Azerbaijan and Armenia are (as yet) unknown on the vast, multiethnic territory of Russia. Yeltsin is not immune to Russian national feeling (which is good, since otherwise he should not have become the Russian president) but we still have no serious reason to perceive him as a militant nationalist. If we classify him in this way, then what should we say of such outspokenly nationalist leaders as, for instance, Landsbergis, let alone Gamsakhurdia and many others?

On the other hand, many Russians do suffer from a deep, morbid national frustration. I saw many examples of this at a Russian American conference organized by the Transnational Institute (an American organization devoted to the worthy aim of creating bridges between Russia and the West) in Petersburg (September 7–9) and Moscow (September 11–14).

The theme of the conference was "The Renaissance of the Russian Philosophical Tradition." But the debates concentrated on the distinctive features of Russian *religious* philosophy and, consequently, on the Russian religious mind. It could have been predicted, but I had not expected that Russian "exceptionalism" and the "Russian mind" would so completely dominate the conference that non-religious currents of Russian thought would be almost totally ignored and that a preoccupation with the tragedy of Russia would be so obsessive. Nobody asked questions about the place of the ideas under discussion in a wider European context; Western philosophy was conspicuously

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absent even from the background, and interest in traditional philosophical disciplines was subordinated to the only question which really mattered—the ultimate meaning of Russian history. Almost all Russian speakers, otherwise very favorably disposed toward Westerners, resorted uncritically to the Slavophile view of the contrast between Russia and the West. The West was presented as invariably "rationalistic and individualistic," while true "Russianness" was defined as originating in the mystical tradition of the Eastern Church, in sharp contrast to Western values.

How do those possessed of such a worldview respond to the popular desire to "return to Europe," or to "normalcy"? The only coherent answer to this question was: yes, we have to develop a market economy and political democracy, but at the same time we must remember that these are *merely external forms,* which should be filled by our own, uniquely Russian, spiritual content.

Cultural isolationism? Yes, but (as always!) in conjunction with messianic motifs. There is a will to believe that Russia's sufferings were not in vain, that she shed her blood, as well as the blood of other nations, for the general salvation of humanity. Peter Chaadaev, a nineteenth-century Russian thinker who was deeply pessimistic about his country, said once that the only meaning of Russian history was to teach the world a great lesson. Some participants in the conference tried to concretize this idea by saying that the meaning of Russian history consisted in teaching the world about the horrors of communism—and in overcoming communism from within and defeating it globally.

Although anyone who loves Russian culture can empathize with the desire for national revival, these particular manifestations of this tendency bear some resemblance to certain aspects of Weimar Germany. A great many German intellectuals of that time believed in German "exceptionalism" and spiritual superiority, severely criticized the "rationalistic West," and set such "German" values as *Geist,* communalism (*Volksgemeinschaft*) and "culture" against the coldness and soullessness of the Western "civilization." This was, as a rule, a peaceful sort of national exaltation and a relatively noble form of ethnocentricity. In a sense (although the cultural roots of this phenomenon were much deeper) it could be seen as compensation for a spectacular defeat—exactly as in Russia. Nevertheless, there are definite links between these ideas and the emergence of Nazism. The deep frustration of the masses made room for militantly nationalist leaders who in turn interpreted the ideas of intellectuals in their own way.

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Let us hope that a similar pattern of development will not appear in Russia. Our optimism should not become complacent. Russians, both the intellectuals and the masses, are now in a state of a deep and understandable frustration[56] which might lead to undesirable consequences for us as well. From the view of *Realpolitik* (as Henry Kissinger has recently argued) it might be most rational to leave Russia to its own fate. But even apart from the moral implications of such a course, Russia is simply too big and too important to be left alone. Helping Russia return to Europe would help the world as a whole to return to normal.

—*September 24, 1991*

NOTES

1. According to *The New York Times* the price of one pound of beef in the USSR was three cents in April and twelve cents afterwards, while the price of a loaf of bread was, respectively, one cent and two cents. See "Gorbachev's Ailing Giant," *The New York Times*, July 17, 1991: A7.
2. See *Vek xxii Mir* no. 6, 1990: 16.
3. "S kazhdym godom vse huzhe," *Nezavisimaya Gazeta*, March 12, 1991.
4. "Reiting izmov padaet," *Komsomolskaya Pravda*, March 22, 1991: 1.
5. S. Cohen, "Gorbachev vedet bor'bu za reformy," *Izvestya*, March 12, 1991: 4.
6. See "Oskal sistemy" in the independent newspaper *Otvevzhennye*, March 1991.
7. "Budu shchastliva umevet' v sovetskoy tur'me," *Kommersant*, February 18–25, 1991: 3.
8. M. Leontyev, "Sovetskoe korporativnoe gosudarstvo," *Nezavisimaya gazeta*, March 14, 1991: 3.
9. Cf. L. Vasilyev, "Gorbachev i Yeltsin segodnya," *Nezavisimaya Gazeta*, March 16, 1991: 5.
10. V. Glushin, "Ob'ektivnaya logika politicheskogo krakha Gorbacheva," *Nezavisimay a Gareta*, March 7, 1991: 5.
11. V. Tretyakov, "Apologya Gorbacheva ili epitafya perestroike," *Nezavisimaya Gazeta*, March 7, 1991: 1–3.
12. Cf. E. Bonner, "Novoe bludo po starym retseptam," and N. Andreeva, "Ostanovit' razval sovetskoy derzhavy," *Ogonyok*, March 9–16: 4–6.
13. "Svet vekov," *Domostroy*, February 12–19, 1991: 8–9.
14. "Petr i Dostoevsky," *Domostroy*, February 19–26, 1991: 14–15.
15. *Domostroy*, January 29, 1991: 16.
16. V. Struminsky, "Tolko sotsyalizm pomozhet chelovechestvu vyzhit," *Domostroy*, January 29–February 4, 1991: 11.

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17. Cf. *Domostroy*, February 5–12, 1991: 12 and *ibid.*, February 12–19, 1991: 13.
18. T. Glushkov, "Prezhdevremenny K. Leontyev," *Domostroy*, February 5–12, 1991: 12.
19. A. Kuzmin, "Aktsya 'privatizatsya,'" *Domostroy*, March 12–19, 1991: 10–11.
20. *Nash Sovremennik* no. 12, 1991: 160.
21. M. Antonov, "Etika Zhivogo Khristianstva," in *ibid.*, 157.
22. I. Shafarevich, *The Socialist Phenomenon* (New York: Harper and Row, 1980).
23. I. Shafarevich, "Rusofobya," *Nash Sovremennik*, nos. 6 and 11, 1989.
24. Cf. V. Pugachev and A. Pukachenko, "O pravom povorote v KPSS," *Nezavisimaya Gazeta*, March 21, 1991: 2.
25. *Pravda*, April 17, 1991: 2.
26. "Novye prikluchenya mistera Lenina v Strane bolshevikov;" *Stolitsa* no. 11–12, 1991: 63–7.
27. V. Shostakovsky, "Diktatura kommunistov vozmozhna, no slabaya i ne na dolgo," *Stolitsa* no. 8, 1991: 5–6.
28. "Pravyi povorot glazami izbirateley," *Gospodin Narod* no. 3, 1991: 3.
29. "Pravyat, ne chuya pod soboy strany," *Gospodin Narod* no. 2, 1991: 3.
30. In democratic circles, including people with clearly defined liberal sympathies, Zhirinovsky was not treated as a genuine liberal democrat but rather as a suspicious political gambler.
31. Three of his books have been translated into English and published by Verso: *The Thinking Reed* (1989), *The Dialectic of Change* (1990) and *Farewell to Perestroika* (1990). [A month before the coup Kagarlitsky distanced himself from both Gorbachev and Yeltsin, arguing that "only strong trade unions can save the Soviet Union." *Soviet Union* (Foreign Broadcast Information Service, Daily Report), July 18, 1991: 51–2.]
32. Cf. A. Krayko, "Mossovetu legche ne stanet," *Express* no. 15, April 11, 1991: 15.
33. See the interview with Gary Kasparov, leader of the Moscow branch of the Democratic Party of Russia, in *Komosomolskaya Pravda*, March 22, 1991.
34. W. Kondratyev, "Proshchanye s illuzyami," *Stolitsa* nos. 11–12, 1991: 14–15.
35. V. Sokolov, "Tretya Sila," *Literaturnaya Gazeta*, April 17, 1991: 5.
36. O. Kalugin, "Nazi i KPSS, SS i KGB—ne stol otlichny drug ot druga," *Gospodin Narod* no. 3, 1991: 10.
37. See *Moscow News* no. 11, March 17–24, 1991: 5.
38. Martin Malia, "A New Russian Revolution?," *New York Review of Books*, July 18, 1991: 31.
39. Martin Malia, "The August Revolution," *New York Review of Books*, September 26, 1991: 22.
40. M. Globachev, "Perestroika-provokatsya apparata?," *Stolitsa* no. 28 (1991): 11.
41. Malia, "The August Revolution," 22.
42. *Ibid.*

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43. See *Soviet Union*, August 29, 1991: 40 (Arbatov's article appeared in *Le Figaro*, August 26, 1991).
44. See *ibid.*, 39.
45. For the opposite view see Malia, "The August Revolution," 27.
46. See Francis X. Clines, "Shevardnadze's Bittersweet Memoirs," *The New York Times*, Sept. 22, 1991: 8.
47. Milchail Golovatov, the leader of the KGB's "Alpha" group, said about the coup: "Frankly speaking, we could have fulfilled our task in 20 to 30 minutes." See "KGB, Long a Feared and Pervasive Force, Is Now Quickly Brought to Heel," *The New York Times*, Aug. 28, 1991: 7.
48. See the June 27 interview with Georgy Shakhnazarov by Andrea Bonnani, *Soviet Union*, July 24, 1991: 3.
49. We should remember, by the way, that Yeltsin's career also owed something to Gorbachev, and that this fact could not have prevented their later split.
50. G. Y. Church, "Postmortem: Anatomy of the Coup," *Time*, Sept. 2, 1991: 35.
51. See "Statement by A. Lukyanov," *Soviet Union*, August 20, 1991: 25–6. Lukyanov developed these views in *Pravda*, August 20, 1991.
52. Cf. Malia, "The August Revolution," 25.
53. Cf. L. Morton, "Starting at Year Zero," *Time*, Sept. 9, 1991: 32.
54. See Jadwiga Staniszkis, "Nowe Imperium," *Polityka*, September 14, 1991: 11. The subtitle of this interesting article is, "The Situation of Central Europe Will Now Be More Difficult." Staniszkis, a well-known sociologist and a former advisor to Solidarity, is the head of the Center for Soviet Studies in Warsaw.
55. See Yunna Moritz, "Otvechal Mudryi Jel-Tsyn (Po povodu ego tele-interview 7 sentyarya)," *Nezavisimaya Gazeta*, September 12, 1991: 8.
56. A telling expression of this mood is Andrey Fadin's "Tretii Rim Tretyego Mira" ("The Third Rome of the Third World"), *Nezavisimaya Gazeta*, September 1991: 5. A few months ago Fadin, one of the editors of *Kommersant* (*The Trader*), was an energetic advocate of free-market reforms in the Soviet Union. Now he gloomily predicts that such reforms will bring only more poverty, more pain and suffering.

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Ryszard Legutko

THE FREE MARKET IN A REPUBLIC

In Poland, the practical difficulties encountered in the struggle to create a capitalist society are leading many Hayekian liberals to the realization that social factors crucial to the creation and stability of such a society are invisible within the classical liberal intellectual horizon and are undermined by its ethic of egalitarian individualism. Therefore, paradoxically, a major step forward in the creation of a liberal society *has been the abandonment of significant elements of liberal ideology in favor of civic republican and neoconservative ideas.*

The reception of liberal ideas in the communist and postcommunist world deserves, for more than one reason, comprehensive study. The societies which have shrugged off totalitarianism and embarked on the construction of Western-style liberal orders based on a free-market economy not only constitute an important testing ground for the viability of liberal principles; the experience of the East European countries, deeply anchored in traditions which in the West have been on the wane for some time, should also give us some information on the effects, positive or negative, which those traditions have on the assimilation of liberal structures in an essentially non-liberal social context. The remarks that follow do not by any means pretend to be

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such a comprehensive study. They are limited to one aspect of the problem, which, if my reading of the East European scene is correct, will be playing an increasingly important role in this part of the world.

Hayek and the Road from Serfdom

The reception of Hayek's thought in Poland began in the late 1970s. Those who took his work seriously—and in the course of time their numbers multiplied rapidly—expected to find there an answer to the question which preoccupied all anti-communist politicians and intellectuals in Poland at that time. To paraphrase Hayek's famous title, these politicians and intellectuals hoped to find a road *from* serfdom. A question which had a long history in this part of the world, and not always a laudable one, once more came to the fore: What is to be done? Anti-communist East Europeans welcomed Hayek's thought not because it gave them a penetrating analysis of the processes of Western Civilization, nor even because it provided a conceptual alternative to Marxist or *marxisant* interpretations of how society works. It was accepted in large circles of the political opposition because it was believed to imply a long-term strategy for the relatively painless liquidation of communism. Hayek described how a free society becomes enslaved by having wittingly accepted a sweeping plan to restructure its internal order; Polish anti-communists used Hayek's ideas to convince themselves as well as others that an enslaved society can become free again if more and more people reject the idea of such a sweeping plan and learn to act differently.

Hayek's thought came to Poland at the right moment. In 1980–81, during the first Solidarity era, the interest in free-market economics, or rather in economics as such, had declined; politics had become the main issue dividing the country into the communist apparatchiks against the rest of society, more or less united in its attempt to contain the political power of the ruling minority. The imposition of martial law in December 1981 put an end to such hopes. The communist system, weakened as a result of the Solidarity movement, became strong again; the political opposition was crushed and society at large was disillusioned and intimidated.

It is in such circumstances that the number of Hayekians increased considerably. Politics seemed dead, as the communists who had broken the social contract with Solidarity showed no intention of sharing

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the power which had been given to them by the Soviet army. It became clear that any attempt to mobilize society would be brutally suppressed by the government, and no responsible anti-communist politician wanted to risk a decision which would expose many people to repression, imprisonment or something much worse.

In this atmosphere, many were attracted to the liberals' claim that usually political rebellion fails: it unnecessarily polarizes society, it brings irrational ideologies to the surface, it does not improve the material conditions of the people—usually it worsens them.[1] It is in the nature of major political conflicts—the argument ran—that the two sides tend to resemble each other, which in this context meant that the political opposition had more affinities—in terms of the fundamental approach to social problems, the approach which Hayek called constructivist—with the ruling communist elite than with those enemies of the system who abandoned politics. Instead of politics the liberal anti-communists concentrated on economics, arguing that they were not interested in fighting with the communists but in changing the system. They maintained that the communists would never tolerate an openly adversary political force, but that there was a chance they would tolerate changes in the economic order: the gradual marketization of the economy might be in the interest of the communists, and it was necessary to convince them not only that it would not jeopardize their political control, but that it would also put off the danger of an anti-communist revolution and bring profits to individual communists themselves. In a way it was an attempt to bribe the communists by making them interested in private enterprise, which, it was hoped, would eventually make ineffective the dogmas of the centrally planned economy—the cornerstone of communist domination. The implementation of such a long-term pro-capitalist strategy would create economic conditions similar to those that exist in the West. In this way communism would lose its material basis and would finally disappear. The economic reforms in China (prior to Tiananmen) were welcomed enthusiastically by many Polish liberals who considered them a model case.[2]

To what extent this scenario actually follows from Hayek's philosophy is of little importance. The Polish Hayekian liberals were not interested in the theoretical accuracy of their interpretation. They read Hayek rather superficially: not from the point of view of the scholar or historian of ideas, but that of the activist whose main objective is to change the existing system. Despite this theoretical nonchalance, however, Hayek's enthusiastic reception resulted in the rehabilitation

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of one of the basic categories in Hayek's thought—that of evolution. The Polish liberals became evolutionists and proudly labeled themselves as such at a time when the idea of a peaceful anti-communist revolution (for example, through a general strike) was being seriously contemplated by the Solidarity leadership and hoped for by millions of its members. The liberals believed that the gradual development of entrepreneurship and the increasing marketization of the economy provided more sensible alternatives because such processes, even if less spectacular, would sooner or later produce the rules of conduct which Hayek considered to be the pillars of a free society. The liberals, unlike other anti-communists, feared that a new democratic system generated by the successful overthrow of communism (which, let me repeat, they thought highly unlikely) would be unable to reproduce the rules of just conduct that had been destroyed during the reign of communism. Thus, paradoxically, the impossibility of the quick abolition of communism was for liberals a good thing, although for obvious reasons they never explicitly admitted this. The time necessary for supplanting the centrally planned economy with a free market was to be used for creating the social infrastructure of the Polish society which would emerge after communism had withered away.

The liberal program was original, optimistic, and realistic, though of course highly controversial. Whether or not it would have worked we will never know, since history took a course almost nobody predicted. Much of the Hayekians' program was made obsolete by the quick, almost overnight liquidation of communism. Contrary to the Hayekians' and other groups' belief that the communist system would not fall in the foreseeable future, it did fall. What is more, the system fell spectacularly, like a row of dominos, across almost all of Eastern Europe. But the hardest blow for the Hayekians, as for no other anti-communist group in Poland, was the fact that the system came apart as a result of political action, that is, as a result of the method which the Hayekians rejected and found impossible as well as counterproductive. To make matters worse, the victory over communism was not only political, it was also almost instantaneous—it was, as some would be tempted to say, revolutionary or at least close to it. Thus the whole evolutionary strategy of minimizing politics suddenly became inadequate as the direct result of the *annus mirabilis* of 1989. A new plan was needed, and the question of "what is to be done" had to be raised again.

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The Decline of Polish Libertarianism

The attitude of liberalism toward political institutions has been ambiguous throughout the history of the doctrine, and Polish liberalism is no exception. On the one hand, liberals have been hostile to politics for many reasons, most of which essentially boil down to a conviction that the main current of life flows outside politics and that therefore the structures of the state should be reduced to a necessary minimum. On the other hand, the liberal state—especially when we take the perspective of those thinkers who, like Hayek, believe in the power of evolution—must be grounded in a civilization which generates decades, if not centuries, of political experience and a historical heritage of common practices. Liberal government—it might be plausibly argued—does not come about through the mere abolition of autocratic structures (if it did, it would be a very easy thing to achieve). It requires as well the elaboration of political and non-political devices and forms of behavior which replace and supersede the functions of traditional or modern autocratic states. Whether remaining within the set of conditions specified by liberalism is enough to attain this end, or whether conditions lying outside the intellectual horizon of this philosophy are required, has been a subject of a long and still unfinished debate. Will the rules of the market alone secure social harmony, or should we also accept principles whose validity does not depend on market forces? In other words, the question is whether libertarian ethics are sufficient for the existence of a liberal society, or whether some more austere moral rules are also necessary. Of the latter three are most often mentioned: religion (Protestantism, Catholicism and/or Judaism—a contention of such diverse thinkers as Max Weber, Werner Sombart, Peter Berger, Irving Kristol, Michael Novak, and others), communitarian traditions (for example, aristocratic traditions whose importance for freedom was emphasized by, among others, Edmund Burke and Alexis de Tocqueville), and the politics of republican civility (the American Founding Fathers). Each of these requires that individuals living in a liberal society should not be motivated only by self-interest and a sense of utility—the main driving forces of market processes—but that they should also obey certain religious norms, respect certain social and cultural hierarchies, and/or be responsible citizens cultivating republican virtues. These rules, it is argued, while vital for a good society, cannot be preserved by liberal ethics alone.

The presence of communism in Poland in the 1980s spared the Polish Hayekians the trouble of reflecting on the problem of the complex

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relations between liberalism and non-liberal sources of order. It was assumed that the means provided by liberalism are sufficient for creating a free society and that it is enough to concentrate on economic freedoms, leaving other spheres of life to spontaneous development. After the disappearance of communism this attitude has changed—a fact of great significance, usually either ignored or found puzzling by most analysts of Eastern Europe, even those who praise the almost miraculous renaissance of free-market thought in the former Western provinces of the communist empire. There are nowadays very few liberals in Poland who continue to accept the omnipotence of the liberal solution and who still support the thesis that the market alone will generate Hayek's "rules of just conduct."[3] The strategy which seemed so promising under the communist *ancien régime* appears inadequate to conditions of freedom. Almost all the political parties which espouse the idea of the free market (the Liberal-Democratic Congress, most groups of the Center Alliance, the Forum of the Democratic Right, the Union for Practical Policy, the Republican Coalition) seem to share, to a greater or lesser degree, the conviction that a free market is not enough to create a good and stable society. All of them, while refusing to compromise on the principles of economic liberalism, attempt to enrich their visions of the new order with ideas which are, to say the least, hard to find in the doctrines of pure liberalism.

For the Hayekians this is certainly not an obvious course to take. Indeed, some voices were heard to the effect that the success of capitalism in Poland depends on promoting a consistently libertarian attitude under the new conditions. The argument was as follows. The fall of communism offered an undreamt-of opportunity. Although the bureaucratic state—that arch-enemy of all liberals—has not ceased to exist, it has received a fatal blow. Thus the fall of communism in Eastern Europe has discredited all forms of authoritarianism—political, economic, cultural. The communist state, and indirectly the state *tout court*, has become ultimately and irrevocably desanctified. This fact ought to be taken advantage of by Polish liberals, who should push the process further until the free market emerges in its full potential. Under no circumstances should they stop the ongoing decomposition of the state. Thus, all talk about the insufficiency of the free market is mere talk. It is nothing but a new form of the ideology of *étatisme* which might reanimate the dying Leviathan. Instead of doing away with all authoritarian structures and ceding their prerogatives to the free initiative of individuals and groups, half-hearted liberal politicians are playing into the hands of their traditional enemy.

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Instead of openly and uncompromisingly advocating pure liberalism, they make compromises which are impossible to reconcile with economic libertarianism, or which at least do not lend it obvious support. The historical opportunity to build a genuinely capitalist system in Eastern Europe might thus be wasted. This argument is often heard from Western economic libertarians visiting Poland who, delighted as they are by the disappearance of communism and the popularity of the concept of the free market, become somewhat uneasy about the allegedly statist and authoritarian inclinations of Polish liberals. Those who worry about what they consider to be the anti-liberal tendencies of Polish liberals have received backing from one of the leading authorities in this field, Milton Friedman. In an interview published in a Polish political magazine he expressed similar fears, giving as a positive example—as he often does—the development of Hong Kong, where economic freedom was the only organizing principle, to the benefit of all who have lived and worked there.[4]

It is true that contemporary Polish liberals use language somewhat different from that of their Western counterparts. They seem to appreciate the role of religion, particularly Roman Catholicism; they stress the importance of communitarian traditions; and finally, some of them combine their free-market sympathies with the ideals of republicanism and republican civility.[5] One might say that the strategy of building a free economy in a communist regime has been replaced by a program of building a market economy in a republican state.

The Rise of Republican Liberalism

The notion of republicanism was first introduced into contemporary Polish political discourse by the journal *Res Publica,* which was founded in the late 70s as an underground publication and legalized in the mid-80s. At present it is becoming increasingly popular among the propagators of free-market thought, who in the 80s were hostile to a democratic revolution. Nowadays they have to accept the new democratic regime, but they are not quite happy with the theory and practice of unrestrained democracy. They are no longer political authoritarians and anti-democrats, as they used to be under communism, but they seem reluctant to take the openly democratic stance which characterizes other political groups in Poland.

The latest indication of the growing importance of republican ideals was the establishment of the Republican Coalition in June 1991. The

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importance of republicanism is, in fact, easier to establish than its definition—although it constitutes one of the oldest political traditions in the Western world, stretching Aristotle and Cicero through Montesquieu and the Founding Fathers to such modern figures as Ernest Barker and Edward Shils. The last author gave a definition of civil politics which may help to shed light on republicanism: "Civil politics," wrote Shils, "are based on civility, which is the virtue of the citizen, of the man who shares responsibly in his own self-government, either as a governor or as one of the governed. Civility is compatible with other attachments to class, to religion, to profession, but it regulates them out of respect for the common good."[6] For all republicans, including Polish ones, an individual is thus not only a *Homo oeconomicus* who seeks success in the market, but also a responsible citizen who cares for, and has an understanding of, the common good. The latter category, particularly suspect in the eyes of most free marketeers, justifies politics as an honorable activity and sanctions the existence of the state, now no longer understood as a night watchman. It is for this reason that the greatest republicans put the notion of civic virtue at the center of their reflections by pointing out that individual or collective self-interest can never be a sufficient principle of political organization. The dangers of unlimited and disorderly democracy as well as of brutal and arbitrary dictatorship, which all republicans feared, could be—they believed—averted if a sense of moderation (Aristotle's *sophrosyne* and Montesquieu's *frugalité*) were deeply entrenched among the citizens of a republic, enabling them to come to agreements on political decisions in the light of the public good, as distinct from, and sometimes in conflict with, their individual self-interest.

According to republicans, democracy does not meet the requirements of the best regime because of what Burke called its "wild, litigious spirit," which induces politicians to make hasty and irresponsible decisions. To curb democratic excesses, republicans have usually resorted to two means. The first is the rule of law, interpreted in the Ciceronian or at least in the Hayekian sense as a set of general and abstract rules, in contrast to specific pieces of legislation produced by the democratic process in which various interest groups fight for particular privileges. This notion of law has gained ground in recent times in Poland (though of course in practice it is as difficult to implement there elsewhere), mainly because the method of specific legislation was partly discredited by the communists, who used it to secure their control. Hostility towards arbitrary rules has also been reinforced by

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the idea of natural law propagated by the Catholic Church in Poland, still a powerful force in public life. The other republican way of mitigating democracy goes back to classical political philosophy, which for this purpose formulated the theory of a mixed regime where democratic structures coexist with oligarchic and aristocratic institutions. A republic is said to be a mixed regime in which democratic mechanisms are only part of the system, usually supplemented by elements of oligarchy and aristocracy. It is nowadays argued in Poland that although the free market often conflicts with democracy—which has been obvious to practically all liberals of all epochs—it need not be in sharp conflict with a republic, which separates the economic sphere and the production of wealth (oligarchy) from the political sphere, and where voting procedures and the will of the majority do not necessarily paralyze the economy, as is often the case under democracy. Republicans argue that those who want to imitate the systems of England, France or the United States do not seem to be aware that those are in fact mixed regimes where democracy is coupled with oligarchy, monarchy or aristocracy.

In Defense of Republicanism

Against libertarians who refuse to admit that the free market is not enough and who distrust republicanism as a form of statism, I venture the thesis that to a considerable degree an element of republicanism in the liberal movement of the post-communist world is a healthy symptom. To support this thesis I offer three arguments.

The first has been already touched upon. It refers to what I consider a general weakness of modern Western liberalism, its failure to fully realize the debt it owes to non-liberal political and spiritual traditions. Liberals might criticize the political philosophy of the ancient Greeks, they might reject the unabashed statism of Roman thought, the hierarchical communitarianism of feudalism or the authoritarianism of Christian social teaching, but these traditions played a crucial role in shaping the moral foundations of the Western political order, which are far more embedded in human reality than liberal theories would allow. Liberals, especially modern ones, tend to overestimate the break they made with all previous thought—which they too hastily associate with Throne and Altar—underestimating the wisdom which this thought conveys and the degree of its penetration of our culture. The liberal mind is, then, entangled in a paradox of which it is usually

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unaware: vibrant free markets presuppose a certain set of values, institutions and norms of conduct for their survival which liberalism incessantly undermines. A modern libertarian thus caricatures the republican view in these terms: "The legitimacy and stability of liberal regimes is parasitic on the lingering effects of a pre-capitalist or pre-liberal ethic."[8] There are nowadays few liberals who would agree with Wilhelm Röpke—a thinker of impeccable liberal credentials—that

> even if we conscientiously credit the market with certain educational influences . . . the ultimate moral support of the market economy lies outside the market. Market and competition are far from generating their moral prerequisites autonomously. This is the error of liberal immanentism. These prerequisites must be furnished from outside, and it is, on the contrary, the market and competition which constantly strain them, draw upon them, and consume them.[9]

The traditional liberals of Röpke's type and the conservative Hayekians (the conservatism of Hayek's thought has generally been minimized) belong clearly to a barely visible minority. The majority consists of—to quote Röpke again—"the inveterate rationalists, the hard-boiled economists, the prosaic utilitarians."[10] This majority—as I have argued elsewhere[11]—falls into distinct categories, similar to Röpke's. The first are the rationalists—Ludwig von Mises being their *maître penseur*—who regard the market as an order of reason and who deduce its principles a priori. The second category are the utilitarians—among whom I would place Milton Friedman—who claim that the market justifies itself by means of its unsurpassed fecundity. Those who populate these categories do not refer positively to any of the major spiritual and philosophical currents of the Western history; they either ignore them, or at best argue that they can find a secure place within the liberal framework.[12] There is still a third category—that of the evolutionists, of whom Hayek occupies the most prominent position, and who are far more open to the Western heritage. In Hayek one can even find traces of republicanism, and specifically the idea of a mixed regime—for example, in his proposal for a council of elders (gerontocracy? aristocracy?) that would serve as the guardian of common norms against the rampant particularism of modern democracy.[13] But Hayek's thought has also been subject to criticism by neoconservatives who argue that his concept of spontaneous development implies the acceptance of incidentality as an omnipresent moral factor, which not only runs against the traditional capitalist-bourgeois ethic but threatens, in the long run, to undermine

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all the ethical foundations of capitalism.[14] The neoconservatives claim that Hayek's capitalism, more open than that of other liberals, is still not open enough to the positive output of non-liberal traditions (in contrast to earlier evolutionists, like Lord Acton, who were very much aware of the debt the liberal order had incurred from its predecessors and adversaries). Hayek's concessions, minor from the neoconservative perspective, are of course regarded as inadmissible by libertarians who frown at his alleged lack of faith in the self-sufficiency of liberalism.[15]

In a country like Poland there is a deeply felt need to accept the dominant "rules of just conduct" not only because they have been produced by the spontaneous process of cultural selection but because they are valid, which means that they can be related to something more substantial than the formal criteria of spontaneity. There are important areas of culture to which Hayek's theory cannot do justice (religion being the most obvious example, as Michael Novak and Peter Berger have indicated)[16] and certain fundamental questions which it fails to answer. How to justify the value hierarchies according to which political choices are made? What moral purposes can be elevated in a society and on what grounds? The idea of a spontaneous order will be of little help here because in order to find answers, we need philosophically weightier categories than are employed by Hayek's theory of spontaneous evolution. Can our philosophical curiosity and our natural desire to justify the order we live in be satisfied solely on Hayekian grounds, that is, on the knowledge that the basic rules of the system are something we merely stumbled upon, something that resulted from the social imitation of incidental individual innovations? Can all attempts to search for a larger meaning be brushed aside as, to use Hayek's expression, "primordial emotions"?

The second argument with which I propose to defend the Polish liberals' position stems from the peculiarity of the post-communist world. Those who maintain that the fall of communism has left a void which can be filled by liberal institutions underestimate the strength of the communist legacy. In fact, the authority of Hayek himself can be used against them. They resemble one of the protagonists of the French Revolution, Abbé Sieyès, whom Hayek ridiculed for having exhorted the revolutionary assembly "to act like men just emerging from the state of nature and coming together for the purpose of signing a social contract."[17] To an evolutionist, a program of building a laissez-faire order from scratch is absurd and has more similarities with French constructivism than with the English liberalism to which

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Hayek subscribes.[18] It should be self-evident that the post-communist world is not a state of nature. The state as an omnipresent political institution may have been discredited, but the habits and the ideas that sanctioned it have not disappeared. One should not therefore imagine a Polish or a Hungarian society as "a cleaned canvas," to used Plato's memorable expression, upon which a new order can emerge spontaneously, free of the specters of the past. A more likely scenario would hold that those specters will manifest themselves with greater force than in stabilized societies that have an unbroken historical record. Eastern Europe has gone through several catastrophes which virtually destroyed a sense of continuity. The political and philosophical ideas which are given a hearing in today's Poland and in other East European countries form a strange mixture of ideologies coming from different epochs and intellectual inspirations, some of which are most bizarre. The criteria of spontaneous selection which have functioned in the West to civilize the major political movements and their ideological programs have not functioned here. Someone compared East European communism to a refrigerator which had frozen ideas and sentiments from an earlier period for several decades. Nowadays the fall of the system has caused a rapid defrosting of those ideas and sentiments, with many negative consequences: some are anachronistic and out of touch with reality, not having undergone the trial-and-error self-improvement process which is natural in a normal political life. One may of course hope that once a spontaneous development begins, it will eventually lead to a maturation of dominant ideologies. This may be so, but it might turn out instead that the ideas that play a crucial role today may simply prevent the spontaneous development from happening.

It is my contention that not only did statist ideologies not disappear in this part of the world together with the fall of communism, but that they now exist in a perverted form. Eastern Europe, far from being a state of nature, is a highly political world where all the traditional Western political categories are used, but with different, largely arbitrary meanings. Let us not forget that communism has not been an offshoot of East European parochialism but derived its intellectual impetus from the mainstream of Western culture, much more so than, say, Nazism. The language of communism incorporated but distorted all the standard concepts of political thought. "Democracy" did not mean democracy, "constitution" did not mean constitution, "public interest" did not mean public interest. The result of this gigantic manipulation was that the classical language of politics ceased to per-

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form its original function, which in turn led to a twofold reaction. On the one hand, the aversion to communism was extended to an aversion to everything this language denoted. People thus feared the state, not because of liberal arguments against the state, but because it was a communist one; thus the reality that was most often perceived behind the classical language of politics was a communist one. This in turn provoked an opposite reaction, a widespread longing for "real" democracy, "real" public interest, etc., where the word "real" was used in the ideological sense of something unconditionally good. In both reactions the complexity of each concept and its original meaning remained unknown. To recover the original meanings is of course a task as difficult as it is urgent. The worst thing to do would be to abandon the language of politics altogether in favor of building a civilization of the free market that left the political sphere in a state of barbarism.

The third argument is logically connected with the previous one. How can the classical political categories be rehabilitated? The conventional wisdom has it that the opening to the West and marketization will do the job. Whoever follows the intellectual tendencies of post-communist Eastern Europe will not fail to notice the fascination with "being a part of the West," "joining the European Community," etc. Pro-Western snobbery has always been a remarkable social phenomenon in a country like Poland, and under communist rule played the positive role of a barrier against Sovietization. But this snobbery has a negative side too, especially when the great divide separating Eastern and Western Europe has disappeared. The rapid flow of Western culture may bring—and in fact it is bringing—various currents of ideas which are jointly identified as the essence of the West; thus Westernization is often confused with marketization and the spread of liberalism. Whatever comes from the West thus bears the mark of being supportive of the liberal order. This simplified vision of Western culture will of course slowly change, but its negative effects will probably prove more permanent. The problem is that the ideas which may find the easiest acceptance in Eastern Europe are those which are currently popular, which, needless to say, are not necessarily those that are conducive to building a liberal order, though they themselves may be its products. Classical liberalism may often conflict with modernity (and even more so with post-modernity), but it is precisely modernity that, under the veil of liberalism, and without much resistance from liberals, is being spontaneously imported into East European countries. For a Hayekian, this need not be a welcome development.

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In this context we may again refer to the authority of Hayek himself, who has been a shrewd observer of the disquieting tendencies in the modern world. At the end of the third volume of *Law, Legislation and Liberty* he specifically pointed to two sources of philosophical inspiration which he found particularly inimical to the liberal order—Marx and Freud. Both disseminated ideas which subvert the general and abstract rules of just conduct without which the Great Society is inconceivable. Marxism is in Hayek's view responsible for relativism and egalitarianism, the first leading to the notion that different groups should obey different rules, the second leading to coercion and to a virtual end of spontaneous evolution. Freudianism, according to Hayek, is responsible for the rejection of all traditions of moral rules as "repressive and inhibitory." It would not be an exaggeration to assert that much of what passes nowadays for modernity and constitutes the intellectual climate of Western culture falls within these lines of thought. Marxism, often in diluted and cryptic forms, manifests itself in a popular notion of the conflict of "cultures"—whites against blacks, men against women, North against South. The assumption of incommensurable, untranslatable cultures has now resulted in the attempt to create a more inclusive political language. This fact is worth noting here because language has always been regarded by Hayek as an outstanding example of spontaneous order; the idea of an inclusive language is purely constructivist and as such has dealt a serious blow to Hayek's desideratum because it has shown how deeply constructivism has penetrated the modern mind. Freudianism—also in diluted and cryptic versions—has continued to live in the modern concept of the self and of individual liberation, both of them leading to what Christopher Lasch aptly labelled "the culture of narcissism." All these trends may affect Eastern Europe more decisively than the ethics of classical liberalism, which is still deeply attached to tradition.

This argument may encounter two objections. First, it might be said that liberalism has nothing to do with Marxism and Freudianism, and that therefore one should not associate the malaise of modernity with liberal theory. Alternatively, if the argument is valid, we ought to try to base the new East European order on original liberal notions rather than flirting with the dangerously statist republican tradition. But both rejoinders can be refuted. While it is true that Marxism and Freudianism (as well as their modern counterparts) have little to do with classical liberalism, it is equally true that they can be and in fact are being expressed in a liberal idiom. Even if we leave aside the claims of those critics who, like Lasch, put all the blame on liberalism, we are

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still left with the fact that some basic liberal categories have been employed to substantiate the major tenets of modernity, including those indicated above. Among such categories, that of rights, unquestionably and originally liberal, has been extremely effective in advancing Marxist and Freudian ideas—relativism, egalitarianism, inclusive language, the obsessive concern with moral repression, and the like. It is by means of the concept of rights, whether individual or collective, that modern authors and ideologues try to prove that different cultures obey different and mutually untranslatable rules of conduct, that evolution should be controlled in the name of egalitarianism, that the self is repressed by existing institutions and moral codes; it is the concept of rights that can explain the emergence of "the culture of narcissism." To those who say that Hayek was not compelled to make any concessions to Marxism and Freudianism, one can reply that he rarely used the concept of rights and that his theory of spontaneous evolution does not need it. But what is being imported to Poland on a mass scale as a result of Westernization and marketization is not the ideology of abstract and general rules of just conduct, but a Marxian-Freudian-liberal intellectual folklore in which rights justify all the above-mentioned ideas.

The philosophy of republicanism seems thus a much more appealing alternative. Those who defend it in Poland argue that the reconstruction of classical political orthodoxy—and that is what republicanism is about—will better serve the cause of freedom than a thoughtless acceptance of what passes for liberalism today. The tradition of republicanism provided a natural environment for the emergence of Western liberalism, and there is no reason to believe that Eastern Europe will better off without it. The only doubt is whether in the post-communist world, in entirely new and unpredictable circumstances, the epoch-making task of marrying the philosophy of free enterprise with that of republicanism will be successful. But this is a completely different problem.

NOTES

1. For a more detailed rendition of Hayekian thought in Poland, see Andrzej Walicki, "Liberalism in Poland," *Critical Review* 2, no. 1 (Winter 1988): 8–38.
2. A good sample of this reasoning is contained in a statement given in 1988 by Tadeusz Syryjczyk, one of the leading liberals and the future minister of the economy in Tadeusz Mazowiecki's government, on the predicted role

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of the anti-communist opposition in three years' time: *Res Publica* no. 9 (September 1988): 4–6.

3. Among these one should mention Stefan Kisielewski, Poland's most popular political columnist and the patriarch of Polish liberals.
4. Milton Friedman, "Prywatyzujcie, prywatyzujcie, prywatyzujcie!," *Res Publica* no. 10 (October 1990): 94–103.
5. For a concise description of Polish "Thatcherists" see Pawel Ziólek, "Polska prawica," *Wieź* no. 3 (March 1991): 37–47.
6. Edward Shils, "Ideology and Civility," in *The Intellectuals and the Powers, and Other Essays* (Chicago: University of Chicago Press, 1972), 60.
7. This argument is most often raised by Cracow political philosopher Bronislaw Lagowski in his column in the conservative newspaper *Czas krakowski*. For more details about Lagowski's views see Walicki.
8. Stephen Macedo, *Liberal Virtues* (Oxford: Clarendon Press 1990), 285.
9. Wilhelm Röpke, *The Humane Economy* (London: Oswald Wolff, n.d.), 126.
10. *Ibid.*, xii.
11. Ryszard Legutko, *Dylematy kapitalizmu* (Paris: Editions Spotkania, 1986).
12. For a critique of this theory see my "Society as a Department Store," *Critical Review* 4, no. 3 (Summer 1990): 327–43.
13. F. A. Hayek, *New Studies in Philosophy, Politics and the History of Ideas* (London: Routledge and Kegan Paul, 1982), 152–62.
14. Irving Kristol, *Two Cheers for Capitalism* (New York: Basic Books, 1978), 261–3.
15. Macedo, 285.
16. Michael Novak, ed., *Capitalism and Socialism: A Theological Inquiry* (Washington, D.C.: American Enterprise Institute, 1979).
17. F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), 57.
18. *Ibid.*, 60–61.

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G.B. Madison

THE POLITICS OF POSTMODERNITY

This paper attempts to delineate some of the principal features and tasks of a politics of postmodernity. An attempt is made in the first part of the paper to reflect on the democratic revolutions of 1989 in Eastern Europe and to discern what lessons they might have to offer. What is called for, it is maintained, is a renewed theory of democracy and, more particularly, a reformulation of traditional liberalism. In the second part of the paper the author seeks to suggest how such traditional liberal concepts as the individual, reason, universality, and freedom can be reformulated in a genuinely postmetaphysical, postmodern fashion.

For Hegel philosophy was nothing other than one's own times reflected in thought, and what he attempted to think was modernity itself.[1] I would like to propose that we try to think postmodernity, which is to say: the end of modernity.[2] To borrow a phrase from Foucault, this would amount to doing an "ontology of the present."[3]

It seems to me that this is the only kind of ontology that is possible after the demise or bankruptcy of metaphysical or foundationalist

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thinking. I do not even believe that it makes much sense today to set off, Heidegger-wise, in pursuit of that non-being that he called "Being." After the "end" of metaphysical essentialism (in the realization that there are, as Derrida would say, no "transcendental signifieds"), the task of philosophical *theory* can be nothing more than—and must be nothing less than—making our own *praxis* intelligible to ourselves. Theory must not, however, be thought of in the ancient sense as *contemplation*, as the passive recording of what is "objectively" and immutably "true" (i.e., just "there," waiting to be discovered by a purified gaze)—traces of which, I believe, are present in Heidegger's notion of *Gelassenheit*. Theory does not merely mirror practice but can contribute to its actual reconstruction; it can thus help to make our postmodern times turn out to be whatever it is that they in fact turn out to be. If, as many postmodernists hold, history and reality are inseparable, this means that theory has a dual, critical-constructive role to play in regard to what we have been accustomed to call "reality." Reality is something for which philosophers have to assume at least some responsibility. To quote Foucault once again:

> Philosophy's question therefore is the question as to what we ourselves are. That is why contemporary philosophy is entirely political and entirely historical. It is the politics immanent in history and the history indispensable for politics.[4]

To engage in a philosophical reflection on postmodernity is necessarily to engage in a reflection on the politics of postmodernity. In this regard, one can do no better, I think, than to pick as a starting point for such a reflection the year 1989.

The Lessons of 1989

For observers and theoreticians of the world scene, 1989 was the *annus mirabilis*, the Year of Wonders, also referred to as the Year of Truth, when we dared not stray too far from our TV sets lest we miss out on some new, incredible development. Who of my generation, for instance, ever thought they would live to see the end of the Berlin Wall and the Cold War? Nineteen eighty-nine (or 1989–90) can stand as a marker for the end of a great number of things. The end of communism, to be sure. As Timothy Garton Ash has remarked: "This was the year communism in Eastern Europe died. 1949–1989 R.I.P."[5] The same could be said for socialism. Some have even ventured to say that 1989

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signaled the end of history itself.[6] (So many things have recently been ending, or have been said to have been ending, that talk about these matters has now been labelled "endism.")

In view of the peaceful revolutions in Poland, Hungary, East Germany, and Czechoslovakia, as well as the one being attempted at this very moment—albeit with great difficulty—in the Soviet Union, one thing in particular seems to stand out. The two hundredth anniversary of the French Revolution, the first quintessentially modern revolution, 1989 would appear to have marked the end of *revolutionism*, i.e., of what could be called politics in the modernist sense of the term, the politics of confrontation and violence so dear to the heart of the old, revolutionary left (and, for that matter, of the so-called New Left as well). The revolutions of 1989 could be said to be *post*modern in that they cannot be understood according to the model which emerged from the French Revolution and was consolidated in the Bolshevik revolution of 1917, viz., the violent overthrow of an established social and political order, followed by a period of "revolutionary justice," i.e., systematic terror (all for the noble purpose of "solving" once and for all the problem of social justice). This modernist conception of revolution is metaphysical through and through in that it assumes the existence of The One Right Way, to be implemented at any cost. There is every reason to believe that postmodern revolutions will typically be of a quite different kind, without pitched battles and violent, repressive aftermaths, a kind of revolution for which, if one recalls its origins (in the Revolution of 1789), the red flag ceases to be an appropriate symbol.[7] If the goal of modernist revolutions was the seizure of power, the goal of postmodernist revolutions could be said to be the diffusion or dissemination of power.

Postmodern revolutions will be characterized not so much by riot and mayhem and the shedding of blood as by people together taking a courageous stand and making a concerted call for and attempt at discussion and dialogue. With the postmodern realization that in politics there can never be "solutions," only accommodations, they will demand that differences and disagreements be addressed in a communicatively rational way, under the rule of law. The weapons they resort to will not be guns and firebombs but fax machines and personal computers, and the force they will rely upon will be the solidarity generated by means of worldwide communication. Timothy Garton Ash's observation about Hungary could be generalized: "This was a movement conducted as much in the media as on the streets."[8] The Chinese Democratic Movement, even in its momentary failure, stood

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as a model for this new kind of revolution. As Yan Jiaqi, a leader of the post-Tiananmen Front for a Democratic China, founded in Paris on August 1, 1989, has said: "The Democracy Movement was characterized by one outstanding feature: demonstrators used only peaceful, rational, and nonviolent means to try to achieve their goals."[9]

As one socialist regime after another in Eastern Europe came tumbling down, like so many dominoes, people were everywhere asking, "What can we do now to help these countries?" One close observer of these rapidly unfolding events turned the question around, however, by suggesting that we ask instead what Eastern Europe might do for us. Is there not something that *we* can learn from them?[10] If our goal is to understand our own times, I believe that there is indeed much that we can learn from the demise of what was called "really existing socialism."

One thing at least seems plainly obvious: Collectivism ("common ownership of the means of production," in the words of Marx) has been a colossal failure and is no longer, as William James would say, a live option. Long since discredited by economists such as Ludwig von Mises and F.A. Hayek on a theoretical level, the idea of a collectivized, command economy has now been conclusively "falsified" in practice.[11] While the coercive measures of totalitarian governance are capable of achieving a certain level of crude industrialization in underdeveloped countries, they are incapable of generating and sustaining a complex, highly developed, sophisticated economy. And whatever level of development they do achieve comes at an extremely high cost, not only in economic (e.g., environmental) terms, but also, and perhaps especially, in political ones. Late modern socialism (which could be viewed as a form of scientism in the realm of human affairs) culminates in the establishment of a societal order in which neither the individual nor society retain any degree of autonomy but in which the individual is completely subordinated to society and society in its turn is completely absorbed into the political. Actually, it would be more correct to say that in totalitarian regimes, which bring about a total politicization of society, the political realm, conceived of as a public forum in which competing groups of individuals can mediate their differences in a peaceful fashion, ceases to exist altogether.[12] The state (in the sense of the *res publica*) becomes in fact the private property of a select group of individuals having control over a hierarchical, monopolistic, and autocratic Party whose only common bond is an abstract, all-embracing ideology whose real purpose is to guarantee them an elevated standard of living. The end state towards which state socialism

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tends, and which it has reached today at the end of modernity, is institutionalized corruption (the corruption of the Chinese regime was one of the main targets of the Democracy Movement in that country).

From this point of view, what the events in Eastern Europe signify is quite simply the *rebirth of politics*. In dismantling state socialism, the people in these countries are seeking to reinstitute what, in accordance with traditional liberalism, they call "civil society"—a society in which the coercive instruments of the state are assigned a strictly limited function and in which individuals, in free, voluntary association (or what the Solidarity activists called "social self-organization") are allowed to pursue their own well being (their "happiness," as Jefferson would say) as best they see fit.[13] In an address to the Polish parliament in January 1990 Vaclav Havel stated, "We have awakened and we must awaken those in the West who have slept through our awakening."[14]

The message that Havel and others in the East are attempting to transmit to us is that between socialism and liberalism it is necessary to choose. The much vaunted "Third Way," the Easterners now know and are saying to us, does not exist. "Socialism with a human face" is merely, in the words of one Polish activist, "totalitarianism with the teeth knocked out."[15] In economic terms, the choice is between a regulated, planned economy and a (free) market economy. Any advanced society must opt, basically, for either one or the other. From a purely theoretical or conceptual point of view, there exist no other options. (This, of course, is not to say that a society operating according to the dictates of a market economy may not use a portion of the wealth generated by such an economy to fund certain desired social programs. Note, however, that this is precisely not a question of *economics* [as if we were talking about something other than a market or "capitalist" system] but of *politics*.)

Because any modern economy must be *either* a socialist economy *or* a market economy, this means as well that once a decision has been made to move from the one to the other, the transition must be global, not piecemeal, and must be effected as rapidly as possible. As the Swedish economist Anders Aslund recently wrote, "It is a question of all or nothing."[16] The phrase "socialist market economy" bandied about by some half-hearted Soviet reformers is oxymoronic.[17]

What all of this means for *us* is that, like state socialism, what in the West could be called state welfarism ("statism")—long the ideal of the democratic left—is not a viable option. The trouble with state welfarism is that, like state socialism, but in a more drawn-out way, it leads,

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by means of a hypertrophic bureaucratism, to much the same end: the destruction of individual initiative and free enterprise and the politicization of society (or the absorption of society into the state), which means conversely the demise of politics under the heavy hand of big government. As one social commentator has observed, "Accepting the 1980s means above all that there is no way back to the cozy days of social democracy. There is only a way forward to new liberty."[18]

The Non-Solution of Laissez Faire

Does this mean that those on the right who have long advocated an idealized form of unfettered capitalism have finally been vindicated? I do not believe so at all. Let me try briefly to indicate why.

Laissez-faire libertarianism, or what some choose to call anarcho-capitalism, is as much a testimony to the breakdown of politics in late modernity as is state socialism. Like modern thinking in general, individualistic libertarianism takes as its model the method of modern mechanistic science and engages in a form of analytic reductionism. It seeks to understand social wholes ("society") as the simple resultant effect of a multitude of isolated or self-contained individuals ("Robinson Crusoes") pursuing separately or in contractual tandem their own strictly private interests. Indeed, libertarianism, which generally appeals to a kind of empiricistic realism when it seeks to explicate itself theoretically, rests on a properly metaphysical notion of the human (and political) subject. Libertarianism's core notion of the "sovereign individual" is nothing other than a version of the old metaphysical concept of *substance*: The human subject is defined in the first instance by its coincidence or *identity* with itself, its immediate *presence* to itself. The notion of property rights, which forms the heart and soul of libertarian thinking, is justified by the belief that that which is *most* present to the subject is its own body. The body is the subject's own, inalienable *property*. (Note how far this is from the phenomenological position articulated by Merleau-Ponty which maintains that I do not *have* a body, I *am* my body.) From this metaphysical basis the entire economic theory of possessive individualism follows. Property rights receive a foundationalist, essentialist guarantee in that they now have a metaphysical origin: Whatever the sovereign subject invests its bodily labor in becomes properly a part of it, becomes *its own property* (this is what libertarians refer to as "homesteading").[19]

What all of this amounts to is that libertarianism (laissez-fairism) has

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no way of conceptualizing the public realm—except as something to be used (abused) by individuals or special interest groups to advance their own private or particular interests. The idea that political institutions naturally give rise to abuse follows, of course, from the supposed nature of human beings as self-interested utility maximizers (*homo economicus*). The bottom line of libertarianism is neatly summed up in the slogan, "Our Enemy, the State." Accordingly, libertarianism can only conceive of the state, the public realm, as something to be "privatized" and eliminated as much as possible (the "minimal state"). "Politics" becomes a dirty word; it is equated with "rent seeking," i.e., the use of public institutions by individuals or groups to further their own private interests.

Let me be clear about one thing. However much I may disagree with libertarianism as a political philosophy, I do not contest the libertarian assessment of our current situation. In advocating, in a kind of reactionary utopianism, the privatization of the public realm, i.e., its dissolution,[20] libertarian theory is reacting to a clear and present danger. If, as I said earlier, state socialism results in institutionalized corruption, so also, in its own way, does state welfarism. What today is apparent everywhere in our late modern liberal democracies is the increasing *corruption* of the public realm; politics is indeed becoming a matter of unrestrained rent-seeking on the part of a multifarious clientele of an all-powerful and all-beneficent central government. And this goes hand in glove with the accommodating response on the part of public office-holders themselves, whose chief concern is a purely *private* one, that of maintaining themselves in office. In Western societies the public realm, the *res publica*, is being eroded as well to the degree that it is being increasingly coopted by coalitions of special interest groups ("interest group politics," "political entrepreneurship").[21]

The fact remains, however, that libertarianism's solution to the corruption of modern politics—the privatization of the public realm—would entail the demise of politics altogether. Like state socialism, libertarianism leads to the dissolution of the political, to a "rejection of politics," in Ryszard Legutko's words.[22] For in accordance with its modernist conceptuality, its atomistic individualism, libertarianism has no way of conceptualizing social reality in its own right; it lacks the conceptual resources to make proper sense of a notion which is at the heart of Western political thought, that of the *common good*.[23] To the degree that democratic theory hinges in one way or another on the notion of the social contract, libertarianism has nothing to contribute to the furtherance of democracy, since it can conceive of the social

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contract solely on the model of private party (commercial) contracts. At the most, libertarian theory can serve to legitimate a form of emasculated Hobbesianism.[24]

A good example of this is afforded by the erstwhile defender of liberalism, John Gray. Having succumbed, it would appear, to a kind of postmodern despair over the ability of liberal theory to "govern or even substantially illuminate [political] practice"[25]—a despair shared by both right-wing libertarians and left-wing communitarians—Gray has reverted in his recent work to precisely this sort of "post-liberal" (as he terms it), benevolent Hobbesianism.[26]

If modernism culminates, in one way or another, in the demise of the political, perhaps we could say that one thing that postmodernism signals, as least as a possibility, is a rebirth of the political (the public realm, *le politique*). Again, this would seem to be the message coming through from Eastern Europe. If we stick to the year 1989 as our focus, one of the most salient traits of our times would seem to be the irrepressible demand on the part of peoples around the world for greater freedom and democracy.[27]

If philosophy's task is to think its times, then we must find a way of adapting our theories to all these new, unprecedented developments. As Abraham Lincoln said of his times, which were revolutionary ones also: "The dogmas of the quiet past, are inadequate to the stormy present. . . . As our case is new, so we must think anew, and act anew."[28] Or as Alexis de Tocqueville had written a number of years earlier, as he contemplated the great democratic revolution he saw coming in the world: "A new science of politics is needed in a world which is all new."[29] What above all a "new science of politics" appropriate to our times calls for, I maintain, is a renewed and enlarged *theory of democracy*. Democracy may be an old idea, but I do not believe that it has ever been adequately conceptualized. It certainly cannot be denied that the idea still awaits a more ample translation into actual practice, even in the West. Democracy is an old idea whose time has come. The growing number of recent publications dealing with the theory of democratic practice would seem to indicate as much.[30] The New World Order or the New Thinking that it seems everyone is talking about today calls for a new conceptualization of the values that this order is meant to embody, above all those of freedom and democracy.

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Postmodern Liberalism vs. Postliberalism

If it be allowed that one of the outstanding tasks of our times is indeed the working out of a full-fledged theory of democracy,[31] the question arises: Where are we to look for the conceptual resources necessary to this endeavor? The question is all the more urgent in that much postmodern thinking appears to have undermined the inherited conceptual schemas at our disposal. One has only to think of Lyotard's proclamation of the demise of all the great, legitimating metanarratives, in particular that of the progressive liberation of humankind.[32] On this score, however, I must admit that I tend to side with Habermas. I too do not believe that the Enlightenment project—the notion of universal human rights and the notion of liberal democratic government which goes along with it—has yet been exhausted.[33] Nor, it would seem, do many in Eastern Europe. As a reformist member of the now defunct Hungarian communist politburo remarked a couple of years ago: "We want to abolish the Party-state. We want to reintroduce the principles of Montesquieu in modern form."[34]

What is necessary, in both East *and* West, is a reintroduction of the principles of classical liberalism in modern form—or, perhaps I should say, in a postmodern form. In regard to the question of what we can learn from Eastern Europe, Ash remarks:

> If I am right in my basic analysis, they can offer no fundamentally new ideas on the big questions of politics, economics, law or international relations. The ideas whose time has come are old, familiar, well-tested ones. (It is the new ideas whose time has passed.)[35]

If Francis Fukuyama's "The End of History?" provoked such a stir when it was published just when events in Eastern Europe were really beginning to heat up, it was no doubt because, its overly dramatic historical scenario notwithstanding, it brought many of the crucial issues squarely to the fore. In particular, it raised the question as to whether, after the end of socialism, there remains any viable alternative to traditional liberalism. I for one am convinced there doesn't.[36] The anarchistic ideal extolled by a number of postmodernists (many of them ex-Marxists) as an alternative to monolithic communism is not only not practicable (it never was) but, in a postmodern age, would be a sure recipe for disaster in that, idealizing as it does a kind of nonsituated freedom, *la liberté sauvage*, it lacks the conceptual resources for elaborating and defending the various *institutional* arrangements which will be necessary if the freedom of the individual is to be safeguarded

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in an era marked above all by an unprecedented growth in electronic information technology whose potential for abuse is obvious.

Nor would any increase in democracy, i.e., the participation of the citizenry in government, be desirable that did not incorporate the basic principles of liberalism, those having to do with human rights and individual freedoms. For it seems obvious to me that a postmodern civilization of mass communications would, by itself, facilitate (by means, for instance, of the new technology of interactive television) the "tyranny of the majority"—a tendency inherent in unrestrained or "radical" democracy that James Madison feared above all, and which is particularly in evidence today in the case of all those moral crusaders seeking to impose their standards on society as a whole. The rule of the "moral majority" would undoubtedly be less brutal and inhumane than the socialist Gulag system, but would it really be all that less oppressive? The great merit of the traditional notion of *liberal* democracy lies in its insistence—so problematic in political theory, yet so indispensable in actual practice—that the state must remain *neutral* in regard to ordinary moral or religious values, for the state, under pressure from democratic majorities or "communities" to advance particular moral values, would otherwise favor the interests of one segment of the population over others; and this is tyranny, however noble-sounding might be the causes it seeks to promote.[37]

What the postmodern world needs is *both* more democracy *and* more freedom. As Wei Jingsheng, author in 1978 of the famous "The Fifth Modernization: Democracy" and subsequently, and as a consequence, a long-time prisoner of the Chinese Gulag wrote: "The struggle of modern times is a struggle to achieve the maximum degree of freedom and democracy that mankind can contemplate."[38] Philosophy surely has a key role to play in this struggle. Why could we not call the "new science of politics" that our times call for *postmodern liberalism*? One of the important tasks of our times, as I see it, is the detailed working out of a postmodern or, as some would call it, a radical liberal theory.

I can, however, readily anticipate an objection to this kind of project, especially on the part of some fellow postmodernists. Classical liberal theory and its core notions, such as those of individual freedom, universal human rights, and the view of world history as the progress of freedom, they will say, are so inextricably bound up with metaphysical, essentialist thinking that they lack any legitimacy in a post-metaphysical age. Once again, John Gray is representative of this particular strand in postmodern thinking when, in unison with the communitarian critics of liberalism, he writes: "The sustaining myths

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of liberal modernity—myths of global progress, of fundamental rights and of a secular movement to a universal civilization—cannot be maintained even as useful fictions in the intellectual and political context of the last decade of our century."[39]

I would not contest the fact that eighteenth-century liberal thought did indeed appeal to a no-longer-cogent metaphysical reasoning when it sought to justify its basic tenets philosophically (cf. its use of the notions of Natural Law and Natural Rights). I do not believe, however, that there is any *necessary* connection between the basic notions of liberal politics and the foundationalist reasoning which in the past was used to justify them; I have sought to argue this point elsewhere.[40] Liberal ideals may have arisen in the modern age, but they are not necessarily "modernistic." Indeed, one of the major tasks incumbent upon postmodern *philosophy* is, as I see it, that of rearticulating the core concepts of liberalism—the all-important notion of the individual, for instance—in a decidedly nonmodernistic and nonfoundationalist fashion.[41] Traditional liberal concepts need to be, and can be, translated into a new discursive context. The task of philosophy (theory) in this regard is that of furnishing liberalism with an appropriate, postmetaphysical or postepistemological conceptuality, contributing thereby to the development of a new liberalism that would be at the same time a renewed theory of democracy, a genuinely postmodern politics. In what follows I would like to point towards some of the properly *philosophical* issues that arise in this regard.

Rethinking Some of the Basics of Liberalism

If, as some today proclaim, the "end of metaphysics" means the end of what modern philosophy referred to as the "subject" (a notion central to liberal theory, under the heading of the "individual"), if it means the end of "history" (as being in some sense progressive), if it means the end of "universalism" (cf. the current advocacy of "localism" and "incommensurability"), if indeed it means, as some of the more radical post-Nietzscheans seem to suggest, the end of the traditional philosophical notions of "truth," "meaning," and "reality," then I must at the outset concede defeat—or, at the very least, confess that, as Gadamer would say, I remain "a lost sheep in the dried up pastures of metaphysics."[42] I do not believe, however, that the "end of metaphysics" necessarily means any of the aforementioned things. Does the end of modernism signal the onslaught of some form of anarchistic nihilism, as

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some today proclaim, or can the traditional guiding notions of philosophy—meaning, truth, and reality—be revitalized in a nonfoundational, postmetaphysical, decidedly postmodern way? My answer is in the affirmative.[43] The reason for my taking this line is that, as I see it, there are in fact two quite distinct, though interrelated, strands in postmodern thought in general. Let me just say a word about this.

"Postmodernism" may be a word whose meaning is notoriously hard to pin down, but I would not go so far as Alan Megill and say that it is "whatever you want it to be, if you want it bad enough."[44] As far at least as philosophy is concerned, it seems to me that there are two clearly distinguishable forms of postmodernism. Both are characterized by their rejection of "metaphysics," but the one, which could perhaps be labelled "poststructuralist," proceeds from this rejection to conclusions of a relativistic and nihilistic sort whereas the other, which I will call "hermeneutical," does not. That is the main difference. In the words of one writer, the first kind of postmodernism "is deconstructive, and works to undermine the unities and closures found in modernity, without escaping from them into some new age." (This seems to me a pretty fair characterization of Derrida's enterprise.) The other, he writes, "proclaims that modernity is over, that a new age has begun." The distinguishing feature of this latter form of postmodernity, he continues, is that it "makes use of the past, and of modern achievements," but in a way which is uniquely its own.[45] So the distinguishing characteristic of hermeneutics, I would say, is that while it attempts to conceptualize our lifeworld practice with the aid of a number of traditional philosophical concepts, these concepts are themselves ones which it has sought to reconstruct in a nonessentialist or nonfoundationalist way.

Were one to take the defining trait of metaphysics to be its inveterate tendency to think always in terms of opposites, then it could be said that whereas hermeneutics seeks to move beyond oppositional thinking altogether, the various "poststructuralist" or "deconstructive" postmodernisms do not really succeed in doing so but tend merely to reverse the traditional priorities. Thus, for instance, rather than rejecting the reality/appearance opposition of metaphysics as simply meaningless, insisting, as hermeneutics does, that the lived world (the only world we really know) is *neither* appearance *nor* reality (in the metaphysical senses of the terms), relativistic postmodernisms tend to proclaim that appearance is all there is. Let me try to indicate more precisely what I mean by alluding to some traditional philosophical

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concepts, all of which have been the object of criticism of a "deconstructive" sort.

The modernist notion of the autonomous, rational subject, of a unitary, punctual subject (as Charles Taylor would say), fully in command of itself, *maître de soi*, is one which has hitherto served to "ground" liberal politics, its defense of human dignity and human rights, and its belief in the supreme value of the individual. Today, however, we are told that the notion of the subject or the self (as in the modernist expression "the inner self") is but a metaphysical fiction. There is as little justification for believing in the substantial reality of the self as there is in believing in the notion of substance itself. "Subjectivity," the great discovery of modern philosophy, was not in fact a discovery at all but an invention—and is thus (or so we are told) "culturally relative." Moreover, it is an invention that now needs to be undone, since it leads inevitably to intolerable forms of subjectivism and anthropocentrism. This is more or less the line of thought taken up by the anti-humanist movement currently very fashionable.

To this argument I would respond in much the same way as did Merleau-Ponty. Subjectivity or self-consciousness, he said, may indeed be an invention (certainly philosophers did not discover it in the way Columbus discovered America), but it is nevertheless one of those "ideas which make it impossible for us to return to a time prior to their existence, even and especially if we have moved beyond them."[46] As in the case of Heidegger, Merleau-Ponty's goal was to overcome modern subjectivism, but, unlike Heidegger (and Heidegger's successors), he did not attempt simply to regurgitate subjectivity. The thought of subjectivity (*la pensée du subjectif*), he said, "is one of those solids that philosophy will have to digest." Hermeneutics takes a similar approach. It does not rashly proclaim the "death of the subject" (or the "death of the author" or the "death of man") but attempts instead to conceive of subjectivity afresh, in a conscientiously nonmetaphysical or nonessentialist fashion. What hermeneutics calls for is not a precipitous abandonment of subjectivity but rather a decentering of it, a decentering which results in, as Calvin Schrag puts it, "a *replacement* and *resituation* of the subject within another space—within the holistic, hermeneutical space of communicative praxis."[47] (One of the great advantages of this hermeneutical or Merleau-Pontian approach to the issue of subjectivity is that it avoids the pitfall that menaces any Heidegger-style critique of modern subjectivity—and to which Heidegger himself succumbed—by which I mean that form of anti-individualistic "communitarianism" known as fascism.)[48]

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The subject or self, hermeneutics recognizes, is not a metaphysical in-itself. It is in fact hard to say what the self could be apart from the ideas it forms of itself and the stories it tells about itself, and these are indeed cultural constructs. There is no isolated, sovereign "individual"; the subject's personal being is social through and through. Thus—and here hermeneutical philosophy is of direct relevance to postmodern political theory—self and society are not to be opposed in the way that modernism opposed them. Neither can be said to enjoy ontological priority over the other and neither can be reduced to or "explained" in terms of the other, since neither has any kind of "real" existence (this undercuts both collectivism [or "communitarianism"] and atomistic individualism [libertarianism]). No decent society is conceivable which does not respect the rights and freedoms of the individual, but the individual and individual rights can exist fully as such only in a societal or cultural context in which these notions are accorded a supreme value in both theory and practice.

In regard to the notion of property rights to which libertarians are so firmly attached, it must be said that while real and effective freedom does indeed require the right to own and dispose of property, this right itself is not "natural" but social. The institution of private property is a *social institution*; "private property" is a notion which has no meaning outside of a particular cultural-social-legal context (the Indian tribes of the Amazon, living "in the state of nature," have no such concept). The "good society" is precisely one which assures this right to its members.

In general, it seems to me that the relativistic or deconstructionistic postmodernists are saying that because the subject—or whatever—is not real in the traditional metaphysical sense of the term, i.e., does not exist "in itself," it is therefore only a fiction, is unreal, and should therefore be tossed onto the rubbish heap of history. But this way of thinking is simply a kind of inverse, or perverse, metaphysics. From a strictly hermeneutical point of view, I can see no good reason for opposing fiction to reality. What, after all, is reality? If we can agree (along with Nietzsche) that reality in the metaphysical sense of the term ("being") is indeed a fiction, then perhaps we ought seriously to question the way metaphysics disqualifies as "fiction" everything that does not meet its definition of reality. Yet a good many postmodernists fall into a trap in this regard. Take, for instance, the case of Baudrillard.

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Against Baudrillard

For Baudrillard, the present age is (increasingly) one of *hyperreality*, i.e., one in which fiction has displaced reality and in which *simulacra* reign supreme. "The end of metaphysics," he writes, "signals the beginning of the era of hyperreality."[49] For Baudrillard, and others who think along the same lines, all of this is bound up with the modern technology of the Image, television in particular.[50] The reality the media claim to re-present is in fact, they say, a purely imagistic one, a pseudo-reality created by the media themselves. Everything is reduced to the mere surface play of media images parodying one another. The technology of instantaneous communication undermines the very notion of reality (as modernism conceived of it) as something to be adequately represented as it is "in itself."

One of the favorite examples of the hyperrealists (if I may call them that) is "Ronald Reagan." I put this name in quotes, since the hyperrealist thesis is that Ronald Reagan was, like supply-side economics, all "smoke and mirrors." Ronald Reagan, the president, was, in this view, a movie actor playing the role of himself as an actor-become-president. His reality did not extend beyond the surface image of him projected onto the TV screen; in his case reality was made to imitate the imitation of it. The message coming through from the White House was that it is not the reality that counts, but the image—and the image that people form of the image, thanks to the TV Culture of the Image. The very height of hyperreality.

All of this is true—in a sense. Reagan the Great Communicator was indeed a master storyteller (he himself being one of his own best stories), and his White House staff were highly adept in the art of manipulating the media. But does this mean that Reagan was any less "real"? Reaganism may belong to the realm of the imaginary, but this particular imaginary has had profound effects on the real world. To the degree that it contributed to the end of the Cold War—by forcing the Soviets into an all-out arms race the consequence of which was the bankruptcy of the Soviet economy and the collapse of the Soviet empire—it has helped to make reality a better place. Let us not forget either that the great transformations that have occurred in Eastern Europe owed much of their success to the power of the TV image. Indeed, it is highly doubtful that they could have succeeded without it. And is there not some significance in the fact that the principal actors in the Czechoslovak revolution were themselves stage actors whose base of operations was The Magic Lantern, a theater in Prague?

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Thus, Baudrillard notwithstanding, it may well be that postindustrial electronic technology and the information revolution, despite their ominous potential for abuse, also open up the possibility of new modes of genuine action in a postmodern age, that they have brought about a new situation wherein reality need not simply be reduced to the surface play of referentless simulacra, but rather one wherein a genuine political reality—a truly democratic political realm—can actually be brought into being and sustained by individuals acting in concert and playing directly to the media themselves. The disappearance of reality in the metaphysical sense need not, therefore, entail the reign of the simulacrum as Baudrillard, the lapsed Marxist, so forlornly thinks. Fiction and reality are not, or need not be, metaphysical opposites; fiction (the exercise of the imagination) should not be confused with mere simulation, with untruth. The fact of the matter is that in the realm of human affairs new realities are often brought into being by means of new imaginaries. What, after all, one might well ask (in an Aristotelian mode), is reality if it is not virtuality actualized?[51] The hermeneuticist cannot disagree substantially on this score with Foucault when he wrote, "It seems to me that the possibility exists for fiction to function in truth, for a fictional discourse to induce effects of truth, and for bringing it about that a true discourse engenders or 'manufactures' something that does not as yet exist, that is, 'fictions' it."[52]

All of this is by way of saying that philosophy—by revising key concepts such as truth and reality—has a vital role to play in the politics of postmodernity. There are many other areas where its work awaits it. Let me very briefly indicate a few.

The very idea of *reason* and of what it means to be rational needs to be reconstructed. That is to say, the metaphysical (and libertarian) view of reason as a special "faculty" inherent in man's "essence" by means of which he (I am deliberately using the traditional masculine gender here since Derrida is perhaps right in labelling the metaphysics of presence "phallologocentrism") is able to intuit or otherwise discover and represent to himself the true "nature" of things, i.e., the "truth"—this view of reason must be thoroughly deconstructed.[53] In place of this purely theoretical view of reason, we need to conceive of reason as being primarily a form of communicative praxis, as the dialogical process whereby people arrive at genuine agreements and work out mutual understandings. We have only to look to the ancient and venerable tradition of *rhetoric* for many helpful pointers in this regard.[54] The result of this rearticulation of reason would be that "the

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epistemological [modernist] paradigm of rationality is burst asunder, not through a banishment of the self per se, but through a displacement of an isolated knowing subject that effectively cuts itself off from the social sources of rationality."[55] There are no truths in themselves, and no one can be rational by himself. Reason, being dialogical in nature, is essentially intersubjective.

This relates directly to the all-important notion of *universality*, which is today much contested by those who view it as an expression of Western ethnocentric imperialism ("Eurocentrism"). To abandon universality, however, would be to abandon the philosophical project itself, and I see no reason why we should do so—assuming that we have managed to reconceptualize reason in a nonessentialist fashion. For if rationality is something intersubjective, if it is an appeal to "the other," to mutual understanding, then, as Merleau-Ponty said, "our life is essentially universal."[56] To believe that certain values are universal is to believe that it is possible for people to come to common agreements, if they put their minds to it and act in a spirit of good will. The demise of the abstract, essentialist universality of metaphysics—resting on the concept of an undifferentiated human nature—does not mean that we are condemned to mere "localism" or "regionalism" (as Rorty, for instance, seems to suggest). Humans, after all, are not trees; they are not confined for their lifetimes to their native localities (despite what the back-to-nature autarkists would want us to believe). What happens in China is as much our business as it is that of the Chinese themselves. A reformulated universality of this sort (neither transcendentalist nor historicist) is what Calvin Schrag would call "transversal."[57] And it is, I would maintain, a prerequisite for achieving genuine peace in a postmodern world characterized by global communication.[58]

One final item: the notion of *freedom* itself. This core idea of liberalism is also the core idea of philosophy, which can only conceive of the progress of consciousness (philosophical enlightenment, Socrates' "Know thyself!") as progress in the consciousness of freedom. But like the notion of reason, the notion of freedom needs to be reconceptualized or, as Schrag would say, "refigured" in a nonmetaphysical way. Freedom must no longer be thought of in a kind of Kantian, voluntaristic fashion, as pure, unmotivated freedom of choice, as the unconditioned exercise of the individual's "sovereign will," as, in a word, the affirmation of *self* in the face of everything *other* than itself (*Selbstbehauptung*). In other words, freedom must no longer be thought of as *autonomy*. *Autonomia*, being-a-law-unto-oneself, is a properly meta-

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physical notion, indissolubly linked to a substantialist, isolationalist conception of the human subject. But as in the case of rationality, no one can be truly free by oneself. To desire freedom for oneself is to desire it for all human kind.[59] Freedom is an uncontestable, truly universal value.

Freedom and Solidarity in a Postmodern World

The politics of postmodernity, like postmodern philosophy itself, will—to the degree that it is realized—no longer be one of opposites.[60] Oppositional thinking goes along with metaphysical hierarchies, and it is precisely these which are being undermined by the new postmodern, global civilization which is coming into being. The new era has the potential of being one not of metaphysical, essence-bound homogeneity and modernistic uniformity but of difference, particularity, plurality, and heterogeneity. In regard, for instance, to the new geo-economic order, we are witnessing the emergence of a complex, interlocking, and *decentered* network of institutions in which there is no longer any identifiable source, origin, or center and in which the traditional notion of national sovereignty (the counterpart to that of "individual autonomy") is losing much of its meaning. The global spread of advanced technology will certainly not fail to pose serious problems for the maintenance of a properly human mode of existence—I wouldn't want to deny that for one moment—but it is simplistic and philosophically childish to view, as Heidegger did, the globalization of technology as symptomatic of the "spiritual decline of the earth" (Heidegger the Nazi referred to this, scornfully, as "Americanism").[61]

Far from signalling the demise of freedom and "authenticity," the complex interdependency of all upon all increasingly generated by the rapidly emerging global civilization and economy could well have for its effect a multifarious decentralization of power of all sorts, which in turn would allow for greater freedom and creativity on the part of everyone. This of course is only a possibility. Current, negative reactions to the advent of "globalism" in the form of communitarianism and environmental autarkism could also encourage the spread of various neo-fascisms and a "new archaism." Nevertheless, there is a real possibility that the range of freedom open to the individual will grow with, on the one hand, the decline of metaphysical ideologies and the centers of power they served to legitimate and, on the other hand,

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with the development of a collective and complex, polycentric or multipolar network of multiple communications made possible by the development of a global civilization. While there is nothing to warrant a complacent optimism (the sort of blind faith in "progress" of which traditional liberalism stands accused),[62] there is yet every reason to be hopeful that in a postmodern world, individual initiative and self-determination, on the one hand, and social solidarity and community, on the other, need no longer be metaphysical or political opposites. The members of Polish Solidarity said: *Nie ma wolności bez Solidarności*; There is no freedom without solidarity. In a postmodern age, this would have to be rewritten to read: There can be no freedom without solidarity, and no solidarity or community is acceptable which is not based on the freedom of all.

NOTES

1. For a portrayal of Hegel as the first theorist of modernity see Jürgen Habermas, *The Philosophical Discourse of Modernity: Twelve Lectures*, trans. Frederick Lawrence (Cambridge, Mass.: MIT Press, 1987), chapters 1 and 2.
2. See my "Postmodern Philosophy?," *Critical Review* 2, nos. 2–3 (Spring-Summer, 1988): 166–82.
3. See Michel Foucault, *Politics, Philosophy, Culture: Interviews and Other Writings 1977–1984*, ed L.D. Kritzman (New York: Routledge, 1988), 95.
4. *Ibid.*, 121.
5. Timothy Garton Ash, *The Magic Lantern: The Revolution of '89, Witnessed in Warsaw, Budapest, Berlin, and Prague* (New York: Random House, 1990), 131.
6. I am referring of course to Francis Fukuyama, "The End of History?," *The National Interest* (Summer 1989): 3–18.
7. Luis Guastavino, a senior member of the Chilean Communist Party who was recently expelled from the party for his objection to its continued advocacy of violence, has said: "I don't believe in total truth anymore. There's just one truth today, and that's democracy." (Shirley Christian, "Chilean Communists in Turmoil About the Future," *The New York Times*, September 23, 1990: 5.)
8. Ash, *The Magic Lantern*, 15. Ash also remarks: "The importance of television can hardly be overstated. Future historians of these events will surely have to spend as much time in television archives as in libraries" (22). "Both externally and internally, the crucial medium was television. In Europe at the end of the twentieth century all revolutions are telerevolutions" (94).
9. Yan Jiaqi, Preface to "Han Minzhu," ed., *Cries for Democracy: Writings and Speeches from the 1989 Chinese Democracy Movement* (Princeton: Princeton

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University Press, 1990), vii. For an overview of Yan Jiaqi's career in China as well as a careful analysis of the rational, nonviolent nature of the Chinese democratic opposition, see Andrew J. Nathan, *China's Crisis: Dilemmas of Reform and Prospects for Democracy* (New York: Columbia University Press, 1990). The manifesto of the Federation for a Democratic China is reprinted in *Cries for Democracy*, 382–5.

In the manifesto accompanying their hunger strike begun on June 2, Liu Xiabo and three of his associates stated: "We must use a democratic spirit of tolerance and cooperation to begin the construction of democracy in China. For democratic politics [as opposed to the Leninist-Maoist politics of "class struggle"—"this traditional mentality of hatred, this enemy consciousness, and the practice of meeting violence with violence"] is a politics without enemies and without a mentality of hatred, a politics of consultation, discussion, and decision by vote, based on mutual respect, mutual tolerance, and mutual accommodation" (*Cries for Democracy*, 350).

Ash for his part reports an East German as saying: "'You see, it shows Lenin was wrong. . . . Lenin said a revolution could succeed only with violence. But this was a peaceful revolution'" (*The Magic Lantern*, 64).

10. See Ash, *The Magic Lantern*, 150–51 (this text, in the concluding chapter of the book, was originally published under the title "Eastern Europe: The Year of Truth" in *The New York Review of Books*, February 15, 1990, 17–22):

> About this new Europe there are countless questions to be asked, of which the most obviously pressing is: how can the West help the transition of formerly communist states into liberal democracies? I ask myself a less obvious question: not 'How can we help them?' but 'How might they help us?' What, if anything, can these nearly one hundred million Europeans, with their forty years of hard experience, bring to the new Europe, and to us in the West?

11. Cf. the following statement by a law student at Beijing University in May 1989:

> Perhaps someone will say that Marx's theories are not wrong, but have been distorted by those who exercise them. This is the same as saying that the blueprints of a product are perfect, and it is only after it has been manufactured that the end product becomes a reject. One or two such rejects do not, of course, prove that the design for the product is flawed, but when it has failed to produce a single product that is up to specifications, then the problem is nowhere but in the design itself.
>
> Marx advocated the use of violence to eliminate private ownership and the use of the "dictatorship of the proletariat" (which is one kind of violence) to sustain public ownership. . . . Although several decades of attempts to put socialism into practice have proven that public ownership has hit a dead end in all corners of the world, the "dictatorship" is

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> still busy proclaiming the superiority of a system of public ownership. . . . That China has failed to get on its feet in recent years is precisely because it lacks the spirit of capitalism. . . . In essence, this [the "democratic dictatorship of the people"] is a form of autocracy. From the Soviet Union to China, from Czechoslovakia to Kampuchea, not a single socialist country has been exempt from the terror that accompanies this kind of autocracy. . . . Our objectives, which we do not hesitate to announce, are political democratization and economic freedom. (*Cries for Democracy*, 166–67, 168, 169, 170).

12. See the following remark of the Soviet historian Leonid Batkin in *Nedelya* no. 26, 1988 (quoted by Zbigniew Brezinski, *The Grand Failure: The Birth and Death of Communism in the Twentieth Century* [New York: Charles Scribner's Sons, 1989], 34):

> Politics had disappeared from our society's life since the late twenties. . . . Politics disappeared as a *specific* contemporary sphere of human activity where the differences in class and group interests are displayed and clash with each other, where there is direct public comparison of positions, and where methods are sought to bring them to some dynamic compromise. Politics disappeared—and thus *everything became "political."*

13. Cf. Ash, *The Magic Lantern*, 147:

> A concept that played a central role in opposition thinking during the 1980s was that of "civil society." 1989 was the springtime of societies aspiring to be civil. Ordinary men and women's rudimentary notion of what it meant to build a civil society might not satisfy the political theorist. But some such notion was there, and it contained several basic demands. There should be forms of association, national, regional, local, professional, which would be voluntary, authentic, democratic and first and last, not controlled or manipulated by the Party or Party-state. People should be "civil": that is, polite, tolerant, and, above all, non-violent. Civil and civilian. The idea of citizenship had to be taken seriously.

14. Vaclav Havel, "The Future of Central Europe," *The New York Review of Books*, March 29, 1990: 19.
15. See Timothy Garton Ash, *The Uses of Adversity: Essays on the Fate of Central Europe* (New York: Random House, 1989), 266. See also p. 316: "One message of Poland and Hungary today was summed up for me by a leading activist of Hungary's opposition Free Democrats: 'We say there is no third way. There is no credible alternative between Western capitalism and Eastern socialism."
16. Anders Aslund, *Gorbachev's Struggle for Economic Reform: The Soviet Reform Process, 1985–88* (Ithaca, N.Y.: Cornell University Press, 1989). See also in

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this regard Janos Kornai, *The Road to a Free Economy* (New York: W.W. Norton & Co., 1990) and Branko Milanovic, *Liberalization and Entrepreneurship: Dynamics of Reform in Socialism and Capitalism* (Armonk, N.Y.: M.E. Sharpe, 1989).

17. Cf. Ash, *The Magic Lantern*, 151: "They [the Eastern Europeans] are all saying, and for the left this is perhaps the most important statement: there is no 'socialist economics,' there is only economics." See also p. 105:

> Take a more or less representative sample of politically aware persons [in Czechoslovakia]. Stir under pressure for two days. And what do you get? The same fundamental Western, European model: parliamentary democracy, the rule of law, market economy. And if you made the same experiment in Warsaw or Budapest I wager you would get the same basic result. This is no Third Way. It is not 'socialism with a human face.' It is the idea of 'normality' that seems to be sweeping triumphantly across the world.

For a critical discussion of "market socialism" see Don Lavoie, *National Economic Planning: What Is Left?* (Cambridge, Mass.: Ballinger, 1985).

18. Ralf Dahrendorf, *The Modern Social Conflict: An Essay on The Politics of Liberty* (New York: Weidenfeld & Nicholson, 1988), 175. For remarks on the relation between social democracy and the welfare state, on the one hand, and bureaucratism, on the other, see pp. 129–36, 166–67.
19. For a philosophically well-articulated statement of the libertarian position, see Hans-Hermann Hoppe, *A Theory of Socialism and Capitalism: Economics, Politics, and Ethics* (Boston: Kluwer, 1989).
20. See in this regard the writings of the Chicago school economist Gary Becker.
21. This phenomenon has been extensively analyzed by various public choice economists, Gordon Tullock and James Buchanan in particular.
22. See Ryszard Legutko, "Society as a Department Store," *Critical Review* 4, no. 3 (Summer 1990): 332.
23. For an analysis of the notion of the "common good," one which has the merit of showing how indispensable this notion is for liberal theory, see Michael Novak, *Free Persons and the Common Good* (New York: Madison Books, 1989).
24. The particular tendency in libertarian thinking that I am criticizing is that of attempting to conceptualize (in a kind of epistemological imperialism) "the political" in purely economic terms. Any such attempt is reductionistic and is bound to lose sight of what is uniquely characteristic of the political realm and, *a fortiori*, of democratic politics. For a critique of the libertarian approach which argues that "political action is very different from economic action" see Gus DiZerega, "Democracy As a Spontaneous Order," *Critical Review* 3, no. 2 (Spring 1989): 206–40.
25. John Gray, "Mill's and Other Liberalisms," *Critical Review* 2, nos. 2–3 (Spring-Summer 1988): 33.

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26. In "Mill's and Other Liberalisms" Gray defends "the cogency of a perspective in which political life is theorized as the pursuit of a Hobbesian *modus vivendi*" (32). Since, as he now sees it, liberalism lacks "universal principles with which to secure peaceful coexistence among us," the best we can do is to "resort to compromise, bargaining and, in extremity, to the judicious use of force to preserve the peace." I have attempted to respond to Gray's attack on the validity and efficacy of liberal *theory* (in the spirit of Burkean conservatism, Gray views liberal theory as merely a matter of "abstract principles or ideals") in "Between Theory and Practice: Hayek on the Logic of Cultural Dynamics," *Cultural Dynamics* 3, no. 1 (1990): 84–112.
27. A group calling themselves "Some Beijing University Teachers" summed up the situation in China as they saw it in the following way:

> The people have come to understand that if China is truly to develop, the entire nation must unite under the banners of democracy, freedom, the rule of law, and human rights. Each person's wisdom and talents must be allowed full play while power must be subject to checks, and the people must be encouraged to participate in government, so that government by the few may be changed to government by the many, and a lively political culture may emerge.
>
> History has reached the end of the twentieth century. At a time when the majority of the world's nations are brave enough to open up and move ahead, continually and creatively doing the best they can to develop their countries, the Chinese people are still fighting for rudimentary democratic rights. (*Cries for Democracy*, 263)

28. In his annual message to Congress, December 1, 1862.
29. Alexis de Tocqueville, *De la démocratie en Amérique* (Paris: Gallimard, 1961), vol. 1, 5: "Il faut une science politique nouvelle à un monde tout nouveau."
30. A sample listing: Jonathan Arac, ed., *Postmodernism and Politics* (Minneapolis: University of Minnesota Press, 1986); Thomas E. Cronin, *Direct Democracy: The Politics of Initiative, Referendum, and Recall* (Cambridge, Mass.: Harvard University Press, 1989); Robert A. Dahl, *Democracy and Its Critics* (New Haven: Yale University Press, 1989); Giuseppe Di Palma, *To Craft Democracies* (Berkeley: University of California Press, 1990); John S. Dryzek, *Discursive Democracy: Politics, Policy, and Political Science* (Cambridge: Cambridge University Press, 1990); David Harvey, *The Condition of Postmodernity: An Enquiry into the Origins of Cultural Change* (Oxford: Basil Blackwell, 1989); Agnes Heller and Ferenc Fehér, *The Postmodern Political Condition* (New York: Columbia University Press, 1988); Carol C. Gould, *Rethinking Democracy: Freedom and Social Cooperation in Politics, Economy, and Society* (Cambridge: Cambridge University Press, 1988); Ernesto Laclau and Chantal Mouffe, *Hegemony and Socialist Strategy: Towards a Radical Democratic Politics* (London: Verso, 1985); Claude Lefort, *The Political Forms of Modern Society: Bureaucracy, Democracy, Totalitarianism* (Cambridge, Mass.: MIT Press, 1986); Chantal Mouffe, "Radical Democracy: Modern or Post-

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modern?," in A. Ross, ed., *Universal Abandon? The Politics of Postmodernism* (Minneapolis: University of Minnesota Press, 1988); Michael Ryan, *Politics and Culture: Working Hypotheses for a Post-Revolutionary Society* (Baltimore: Johns Hopkins University Press, 1989).

31. Not all critics of modernity would agree, naturally. Heidegger, for instance. In his famous 1966 *Der Spiegel* interview, "Only a God Can Save Us," Heidegger remarked:

> Today it is a decisive question for me whether a political system can be created that generally corresponds to the technological age, and what system this might be. I don't have an answer to this question. I am not convinced that it is democracy. (Cited in Luc Ferry and Alain Renaut, *Heidegger and Modernity*, trans. Franklin Philip [Chicago: University of Chicago Press, 1990], 56.)

32. See Jean-François Lyotard, *The Postmodern Condition: A Report on Knowledge* (Minneapolis: University of Minnesota Press, 1984).
33. See Jürgen Habermas, "Modernity—An Incomplete Project," in Hall Foster, ed., *The Anti-Aesthetic: Essays on Postmodern Culture* (Port Townsend, Wash.: Bay Press, 1983).
34. See Ash, *The Uses of Adversity*, 295.
35. Ash, *The Magic Lantern*, 154.
36. For an analysis of Fukuyama's argument which criticizes it "for using simplistic dichotomies that evade the economic and ideological convergence of East and West" and which argues that "Fukuyama is unambiguously right about the victory of democracy over totalitarianism, but not about the victories of capitalism and individualism over socialism and Marxism," and that Fukuyama "seriously misunderstands the nature of the post-'historical,' liberal world we now inhabit," see Jeffrey Friedman, "The New Consensus: I. The Fukyama Thesis," *Critical Review* 3, nos. 3–4 (Summer-Fall 1989): 373, 376. Friedman is much less sanguine than Fukuyama that the collapse of communism spells the triumph of liberalism. While he is ready to concede that "we shall never try true socialism again, and that we shall not even indulge the communist trappings of central planning," he is not at all confident that "a leftward movement toward the substance of communist interventionism has been ruled out" (385). He does not believe that the constituent elements of Marxism have yet been called into question; they therefore "can be expected to continue asserting themselves—even as they are now, despite the 'end' of history" (399).
37. Liberalism's notion of the neutral state should not be confused with the idea of the value-free, "minimal" state defended by laissez-fairism. The liberal polity is not simply a big department store or shopping mall (see the article of Ryzard Legutko cited in n22 above) where consumers of ethical systems can pick and choose at their pleasure. Liberalism entails a quite definite set of values which could be said to constitute a "public

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morality" of a particular sort (the key elements of which are reasonableness and justice). These values are, however, procedural, not substantive. Thus the "public morality" of liberalism constitutes a kind of "meta-ethics" which leaves indivduals free, on the level of ordinary, substantive morality, to adhere to whatever form of "private ethics" they choose (such a choice will usually be a function of their cultural or religious backgrounds and upbringings). While it does not prescribe, or even endorse, any particular "private" morality, the "meta-ethics" of liberalism does, nevertheless, exercise a *critical* function in regard to ordinary moralities (when these enter into conflict with its own constitutive values); see in this regard Stephen Macedo, *Liberal Virtues* (Oxford: Clarendon Press, 1990).

38. Wei Jingsheng, "The Fifth Modernization: Democracy," reprinted in Simon Leys, *The Burning Forest: Essays on Chinese Culture and Politics* (New York: Henry Holt, 1987), 237. (At this point, after his never-ending imprisonment in China, Wei is said to be suffering from "schizophrenia"—a testimony to the efficiency of the Chinese thought control system.)
39. Gray, 31–2.
40. See my *The Logic of Liberty* (Westport, Conn.: Greenwood Press, 1986). For a critical review of this book see Don Lavoie, "A Political Philosophy for the Market Process," *Market Process* 6, no. 2 (Fall 1988): 8–12, 29.
41. See my "How Individualistic Is Methodological Individualism?," *Critical Review* 4, nos. 1–2 (Winter-Spring 1990): 41–60.
42. See Hans-Georg Gadamer, "Letter to Dallmayr," in D.P. Michelfelder and R.E. Palmer, *Dialogue and Deconstruction: The Gadamer-Derrrida Encounter* (Albany: State University of New York Press, 1989), 94.
43. For a detailed treatment of these issues see my *The Hermeneutics of Postmodernity: Figures and Themes* (Bloomington: Indiana University Press, 1988).
44. See Allan Megill, "What Does the Term 'Postmodern' Mean?," *Annals of Scholarship* 6, nos. 2–3 (1989): 141. Megill is actually quoting another author: Bruce Handy, "A *Spy* Guide to Postmodern Everything," *Spy*, April 1988.
45. See David Kolb, *Postmodern Sophistications: Philosophy, Architecture, and Tradition* (Chicago: University of Chicago Press, 1990), 6.
46. Maurice Merleau-Ponty, *Signs*, trans. R.C. McCleary (Evanston: Northwestern University Press, 1964), 154. For a discussion of Merleau-Ponty's stand on this issue see my "Merleau-Ponty and the Counter-Tradition" in *The Phenomenology of Merleau-Ponty* (Athens: Ohio University Press, 1981) as well as my "Merleau-Ponty Alive," forthcoming in *Man and World*.
47. Calvin O. Schrag, *Communicative Praxis and the Space of Subjectivity* (Bloomington: Indiana University Press, 1986), 139. See also in this regard the work of Charles Taylor, in particular: "Overcoming Epistemology" in K. Baynes, J. Bohman, and T. McCarthy, *After Philosophy: End or Transformation?* (Cambridge, Mass.: MIT Press, 1987), and *Sources of the Self: The Making of the Modern Identity* (Cambridge, Mass.: Harvard University Press, 1989).

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48. See the study of Ferry and Renaut, *Heidegger and Modernity*, referred to in n31 above.
49. Jean Baudrillard, *The Ecstasy of Communication*, trans. B. and D. Schutze (New York: Semiotext(e), 1988), 16.
50. This, of course, is reminiscent of Heidegger's critique of the "barbarity" of the media, an instance, as he saw it, of the tyranny of the "they" (*das Man*); see Ferry and Renaut, 42.
51. Ideas are a product of the productive imagination, and, as Ludwig von Mises observed: "The history of mankind is the history of ideas. For it is ideas, theories and doctrines that guide human action, determine the ultimate ends men aim at and the choice of the means employed for the attainment of these ends" (*Socialism* [Indianapolis: Liberty Classics, 1981], 518).
52. Michel Foucault, *Power/Knowledge*, ed. C. Gordon (New York: Pantheon, 1972), 193.
53. See my "Pour une dérationalisation de la raison" in Th. Geraets, ed., *La rationalité aujourd'hui/Rationality To-Day* (Ottawa: Editions de l'Université d'Ottawa, 1979). See also chs. 10 and 11 of *The Logic of Liberty*.
54. See my "The New Philosophy of Rhetoric," *Texte: Revue de Critique et de Théorie littéraire*, nos. 8/9 (1989): 247–77.
55. Calvin Schrag, "Rationality between Modernity and Postmodernity," in S.K. White, ed., *Life-World and Politics: Between Modernity and Postmodernity* (Notre Dame: University of Notre Dame Press, 1989), 91.
56. Merleau-Ponty, *The Primacy of Perception*, trans. James M. Edie (Evanston: Northwestern University Press, 1964), 9.
57. See Schrag, "Rationality Between Modernity and Postmodernity," 101.
58. See my "Philosophy and the Pursuit of World Peace," *Dialectics and Humanism* (Poland) 21, nos. 2–3 (1984): 409–23, as well as my "Philosophy Without Foundations," *Reason Papers* 16 (1991): 15–44.
59. As one late modern writer remarked: "En voulant la liberté, nous découvrons qu'elle dépend entièrement de la liberté des autres, et que la liberté des autres dépend de la nôtre. . . . Je ne puis prendre ma liberté pour but, que si je prends également celle des autres pour but." (J.-P. Sartre, *L'existentialisme est un humanisme* [Paris: Nagel, 1964], 83.)
60. Lest my earlier remark to the effect that a modern economy must be either a socialist economy or a market economy be misinterpreted as a form of the very oppositional thinking I have criticized, let me say this. Like any particular arrangement of human affairs (e.g., a culture in the anthropological sense of the term), that particular economic system called a "market economy" has its own particular logic, one which allows for certain variations but which also excludes others, as being incompatible with the logic of the system. If the state seeks *directly* to control the market and its particular distributional outcomes, then this is precisely *not* a market, i.e., a *self*-regulating economy (call it, if you like, a "social market"). *On the other*

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hand, it must not be thought that a market economy could exist *in the absence* of a particular political-legal order (e.g., a system of laws defining private property rights). As one particular way in which a group of individuals may order their economic affairs, a market economy is something which exists *neither* "by nature" *nor* by government dictate. By reason however of its overall policy options, a government may or may not allow a market economy to come into being and flourish.

61. See Ferry and Renaut, 67. In n38 to p. 68 Ferry and Renaut quote a line from Heidegger quoting Rilke (*Letters to Muzot*) which sounds uncannily like an advance echo from Baudrillard: "Now there are intruding, from America, empty and indifferent things, sham things, the trompe-l'oeils of life . . . A house, as the Americans understand it, an American apple or a wine stock from over there have *nothing* in common with the house, the fruit, the grapes into which the hope and thoughtfulness of our forebears (*sic*) had entered." (*Sic!*).
62. See in this regard the latest work of Christopher Lasch, *The True and Only Heaven: Progress and Its Critics* (New York: W.W. Norton, 1991).

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Gene Smiley

CAN KEYNESIANISM EXPLAIN THE 1930s? REPLY TO COWEN

Tyler Cowen's "Why Keynesianism Triumphed" proposed that only Keynesian economists have presented a successful explanation for the Great Depression of 1929–1933 and the continuing slow and intermittent recovery of the rest of the 1930s. This paper examines recent scholarship on the 1930s and finds that there is increasing doubt about the validity of Keynesian explanations, lending credence to both older and recent scholarship that vindicates free-market views of why the Depression happened and why the recovery was so slow and uneven.

Recently Tyler Cowen suggested in these pages that Keynesianism "triumphed" because it was able to explain the Great Depression, while laissez-faire advocates had been unsuccessful at this task. But was the Keynesian explanation *satisfactory*?

Research undertaken since the early 1960s has raised serious doubts about the adequacy of the Keynesian model in accounting for the Great Depression of 1929 to 1933, the recovery from 1933 to 1937, the 1937–1938 depression, and the subsequent recovery. (The last period is particularly important. Although economists may have thought for a time that Keynesian theory actually did provide an explanation for the events of the 1930s, it seems likely that the acceptance of the Keynesian model was

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much more closely related to the perception that the sharp rise in government spending at the onset of World War II led to full employment.)

The Pattern of Contraction and Expansion

Cowen appears to equate the Great Depression with the entire decade of the 1930s. Although there was less than full employment during the whole period, "the Great Depression" correctly refers to the period of economic decline stretching from the second quarter of 1929 through the first quarter of 1933. That trend was reversed from the second quarter of 1933 to the second quarter of 1937, though generally it is argued that the recovery was unusually slow and uneven in its pace. From the second quarter of 1937 through the second quarter of 1938 there was another contraction, the 1937–1938 "depression." From the second quarter of 1938 another recovery began, but approximately full-employment output was not achieved prior to 1942.

Even the Great Depression itself is usually divided into rather distinct periods. The initial contraction in 1929 appears to have been rather mild, though it accelerated after the end of the great stock market crash in September and October of 1929. During 1930 there was a rapid decline in economic activity and a great increase in unemployment. Monetarist economists contend that the nature of the contraction changed in late November of 1930, with the onset of a banking panic in the southeastern states, and in December, when the Brooklyn-based Bank of the United States failed. In their view, these events touched off a liquidity scramble which led to a rapid decline in the stock of money through March of 1933.

The recovery which began in the second quarter of 1933, though initially rather rapid, slowed sharply in late 1933, failing to quicken until the summer of 1935. From then until the first quarter of 1937 the rate of expansion picked up. The recovery which commenced in the second quarter of 1938 was similarly slow.

The Growing Irrelevance of Keynes

Keynesian explanations of the Great Depression have been beating a hasty retreat in recent years. Recently one of the leading Keynesians, Robert J. Gordon, has said that Keynesian theory only explains the initial downturn from 1929 to late 1930, and that the rest of the Great Contraction was due to monetary forces.[3] Research of the last several decades has raised serious questions about even that. Keynesians have usually focused on declining

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investment in the automobile and housing sectors, resulting from excess productive capacity and market saturation in automobiles and from overinvestment in housing. But studies have failed to substantiate the contention that declines in investment in these two sectors were the cause of the contraction.[4] Peter Temin proposed that an unexplained decline in consumption spending was the source of the Keynesian decline in autonomous spending that initiated the contraction, yet later work found no support for this.[5]

Monetarist explanations were at first mainly concerned with explaining why a "normal," albeit relatively severe, contraction was transformed into a catastrophic deflation and depression from the end of 1930 through the first quarter of 1933.[6] More recently it has been proposed that even the initial contraction resulted from failures in monetary policy. Temin, noting the sharp rise in interest rates in 1928 and 1929, observed that "it is possible . . . that the downturn in 1929 was caused in part by monetary stringency."[7] By 1981 Anna Schwartz contended that the 1929 contraction originated with the Federal Reserve Board's "immoderate" concern about stock market speculation, which led it to pursue an unduly restrictive monetary policy in 1928 and 1929.

Austrian economists have offered monetary explanations since the early 1930s. To the Austrians the Depression was the inevitable result of the inflation of the stock of money engineered by the Federal Reserve System during the 1920s. This expansion pushed interest rates lower than consumers' rates of time-preference, resulting not only in more investment than there would otherwise have been, but in a different pattern of investment. The new level and pattern of investment was only sustainable as long as the Fed continued to expand the stock of money at an increasing rate.[9] When the Fed changed course in late 1928, the Depression began—the inevitable process by which resources were reallocated to those uses consistent with consumer time-preferences. Monetarists, by contrast, imply that if the Fed had maintained the money stock's growth rate, the contraction (if any) would not have been so severe.[10]

Though the monetarists have focused on late November and December of 1930 as the turning point, it appears that by then the Depression was well underway. Real GNP for 1930 was 11.1 percent below that for 1929, while real GNP for 1931 was only 5.4 percent below that for 1930. Similarly, a number of recent studies have raised serious doubts about the significance of the banking failures in late November and December of 1930.[11] This has shifted the emphasis of examination toward trying to understand why economic activity declined so rapidly during 1930, but as we shall see, it does not rule out a crucial role for monetary factors.

Two primary explanations for the contraction of 1930 have been pro-

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posed. The first is the Smoot-Hawley tariff. This bill was first introduced, with President Hoover's support, in December of 1928. By late 1929 it appeared to be gaining support and was growing more extensive in its coverage.[12] As it took form in early 1930, it became clear that Smoot-Hawley embodied some of the highest tariffs ever imposed on an extensive list of agricultural and manufactured commodities. Economists denounced the bill and other nations threatened retaliatory actions, but it was enacted anyway, raising the average tariff on imports into the United States from 19.8 percent to 36.4 percent. Few commodities escaped substantial tariff increases. Other countries, including Spain, Switzerland, Canada, Italy, Cuba, Mexico, France, Australia, and New Zealand, responded by immediately raising their duties and/or reducing their quotas on American exports.[13] Most economists would agree that such actions distort prices and require complex shifts of resources away from export-producing firms toward firms which produce import-competitive products and services. Such shifts and dislocations could not help but bring about short-run declines in output and increases in unemployment. In the longer run tariffs also reduce economic growth, since exporting firms are usually among the most innovative and productive.

As David Glasner has noted, Smoot-Hawley also had extremely important financial effects since it systematically reduced the ability of foreign private and government debtors to repay their debts to the United States. "As it became clear that these loans could not be repaid, confidence in the American and international banking systems must have eroded."[14]

The second major factor explaining the rapid decline in 1930 was the general constancy of nominal wage rates while other prices declined. The consumer price index declined 2.6 percent between 1929 and 1930; the wholesale price index fell 9.6 percent. However, nominal wage rates did not fall, meaning that real wage rates actually rose. Tables 1 and 2 show that only in 1932 did real wage rates fall. Murray Rothbard has demonstrated that for a smaller subset of twenty-five manufacturing industries, money wage rates stayed constant through June of 1930, and fell only slightly by December of 1930.[15]

Wage Stickiness and the Free Market

Why did money wage rates not decline during 1930? Austrians have argued that one of the reasons was that President Hoover used his office to attempt to persuade the leaders of the important industries and utilities to hold wage rates constant and "not liquidate labor," as he believed had usually been the case in other contractions. In the 1920.1921 depression, money wage rates had fallen sooner and at a faster rate than in 1930.

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Table 1: Nominal Wage Rates in the 1930s

Year	(1) All Industries	(2) Manufacturing Durable Goods	(3) Manufacturing Nondurable Goods	(4) Bituminous Coal Mining	(5) Index of Composite Farm Wage
1929	$0.56	—	—	$0.66	22
1930	0.55	—	—	0.66	21
1931	0.51	—	—	0.63	16
1932	0.44	$0.49	$0.41	0.50	12
1933	0.44	0.47	0.42	0.49	11
1934	0.53	0.55	0.51	0.65	12
1935	0.54	0.57	0.52	0.72	13
1936	0.55	0.58	0.52	0.77	14
1937	0.62	0.67	0.57	0.83	16
1938	0.62	0.68	0.57	0.85	15
1939	0.63	0.69	0.57	0.86	15

Source: *Historical Statistics of the United States: Colonial Times to 1970* (Washington, D.C.: U.S.G.P.O., 1976). Col. (1) from Series D-802. Col. (2) from Series D-805. Col. (3) from Series D-808. Col. (4) from Series D-813. Col. (5) from Series K-177.

Table 2: Real Wage Rates in the 1930s

Year	(6) All Industries	(7) Manufacturing Durable Goods	(8) Manufacturing Nondurable Goods	(9) Bituminous Coal Mining	(10) Index of Composite Farm Wage
1929	$0.5600	—	—	$0.6600	22.00
1930	0.5645	—	—	0.6774	21.55
1931	0.5760	—	—	0.7116	18.07
1932	0.5538	$0.6168	$0.5161	0.6294	15.10
1933	0.5665	0.6051	0.5408	0.6309	14.16
1934	0.6355	0.6595	0.6115	0.7794	14.39
1935	0.6414	0.6770	0.6177	0.8552	15.44
1936	0.6518	0.6873	0.6162	0.9125	16.59
1937	0.7050	0.7618	0.6481	0.9438	18.19
1938	0.7146	0.7838	0.6570	0.9797	17.29
1939	0.7379	0.8082	0.6676	1.0073	17.57

Source: *Historical Statistics of the United States: Colonial Times to 1970* (Washington, D.C.: U.S.G.P.O., 1976). Cols. (6), (7), (8), (9), and (10) are Cols. (1), (2), (3), (4), and (5) from Table 1 deflated by the implicit GNP price deflator with 1929 = 100.

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Because of the greater flexibility of wage rates, this contraction, though severe, was also very short and was followed by a vigorous recovery which restored full employment in about a year. Hoover was determined that never again would such wage rate declines occur. He argued, along with such major industrial leaders as Gerard Swope, Henry Ford, Owen Young, Walter Teagle, Myron Taylor, Alfred P. Sloan, Pierre du Pont, and Walter Gifford, that if wage rates were held constant, then workers' wages and purchasing power would be maintained and a depression could be averted. In late November and early December of 1929 Hoover held several conferences attended by executives of the major manufacturing, construction, and utilities firms and by labor union leaders. He extracted promises from the businessmen not to cut the wage rates of their employees and to maintain employment by spreading the reduction in hours worked over all employees rather than laying off workers.

These agreements were proudly announced to the public at large. The prevailing views of industrial leaders were certainly sympathetic to such a policy. They believed that their firms had been constructed and kept profitable by their carefully crafted central control, and they saw no reason why an economy could not be run in the same way. The combination of their views, pressure from Hoover's administration, and public expectations that these leaders would honestly follow the promises they had made to the president led most of them to attempt to maintain money wage rates.

As the prices of the products and services they produced fell during 1930, these firms began to lay off more and more workers, causing unemployment rates to continue to rise. Finally they began to cut wage rates. During 1930 it was primarily the smaller firms which began reducing wages rates or reclassifying workers into lower wage positions. Large firms did not begin to reduce wage rates until the end of 1930, and for many it was well into 1931 before they began to cut their money wage rates.[16]

Cowen argues that the "stickiness of nominal wages" through 1930 is evidence supporting the Keynesian explanation of the Great Depression, and is not adequately addressed by the interventionist explanation proposed most eloquently by Rothbard.[17] Cowen, in support of the view that wage stickiness is a market imperfection, states that most neoclassical, Chicago, and Austrian economists argue that if workers do not have jobs, wages will fall, causing unemployment to decline, implying that since this did not happen in 1930, the Keynesian explanation is valid.

If there had been perfectly competitive markets this would be true. However, perfect markets with perfect knowledge and perfect foresight are something not granted to mere mortals; they have never existed and

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never will. If the initial failure of wage rates to decline is a market imperfection, then this characteristic has existed for a long time, not just in 1930. In 1920 wage rates did not begin to fall at the same time as prices did, and, though declining significantly, lagged somewhat behind the fall in prices, in the end never falling as much as prices did. In the 1880s and 1890s, wage rates also were sticky and wage rate cuts were vigorously resisted by workers, as typified by the bloody Homestead and Pullman strikes. Thus, the failure of wage rates to fall as soon as prices began to fall in 1930 was not unusual.

Nor is it surprising that this occurs. Workers did not until recently have access to price indices to tell when all prices are falling. As far as they knew, wage rate cuts would have reduced their real wages. Temin's analysis suggests that in late 1929 and the first part of 1930, people did not consider the contraction to be particularly severe and did not expect it to last long.[18] Managers who held this belief would not want to bear the costs of adjusting to what they thought was a short-term fluctuation.

That the decline in wage rates lagged behind the fall in prices was nothing unusual. What does appear to be unusual is that the lag was somewhat longer than it had been in the past. The correct question is why there was a longer lag. Certainly, *at the margin*, Hoover's "jawboning" to a receptive audience cannot be dismissed as a major reason for the *longer* lag. The leaders of the large American firms at the end of the 1920s were, for the most part, "managerial capitalists," as Alfred Chandler would say: professional managers, not empire-building entrepreneurs.[19] They prided themselves on their ability to rationally manage and maintain their large firms, and the previous decade seemed to provide testimony to their ability to successfully do this. From their point of view, in a short contraction it was not worthwhile to cut wages and could even be counterproductive. Richard Vedder suggests that many newspaper and magazine articles during 1930 reported such statements by the nation's industrial leaders.[20] As long as in the real world, wages and prices are set by price-searching firms, it is fruitless to argue that markets are imperfect because firms are not price takers in both markets. In reality, industrial leaders can act on assumptions which turn out to be incorrect, as they did at the onset of the Depression.

The Role of Macro Mismanagement

The wage stickiness did not stop nominal wage rates from declining; rather, it delayed the onset of the declines. Table 1 presents data on nominal wage rates in the 1930s. The average of all manufacturing industries' nominal wage rate fell only 1.8 percent from 1929 to 1930, but fell 7.55

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percent from 1930 to 1931, and 14.76 percent from 1931 to 1932, for an overall decline of 24.12 percent from 1929 to 1932. Nominal wage rates in bituminous coal mining experienced similar declines, although they were slightly larger both from 1931 to 1932 and from 1929 to 1932. The index of the composite farm wage fell much more, particularly from 1930 to 1931 and from 1931 to 1932, and overall from 1929 to 1932 fell 60.61 percent. These declines, once started, were as rapid as any for which we have records in the United States. Cowen acknowledges that wages did begin falling, but attempts to support his "wage stickiness" position by suggesting that these declines were "to little avail."[21]

The problem was that prices fell even more sharply. Table 2 presents estimated real wage rates for the 1930s. It shows that from 1929 to 1930 and from 1930 to 1931, prices fell at a faster rate than did nominal wage rates. In 1932 the decline in the average wage rate from 1931 was greater than that in prices, so that in that year real wage rates fell after *rising* from 1929 through 1931. This is where monetary factors enter the picture. Prices continued to fall because the stock of money continued to fall. In the U.S. economy, where most money consisted of demand deposits in fractional reserve banks, three factors determined the size of the stock of money: the Federal Reserve System's "high-powered money," which could be used as money by the non-banking public as well as playing the role of a reserve for the banking system; the proportion of their money balances which the public held as currency and coins rather than as demand deposit balances; and the proportion of their demand deposits which banks held in the form of reserves rather than as earning assets. Though the Federal Reserve System did, to some extent, increase the amount of high-powered money, banks began building up their reserves and the non-banking public began to hold more and more of its money balances as currency and coins and less and less as demand deposits. The result was that the banking system brought about a continuing decline in the stock of money and a continuing decline in prices.

The Fed's response to the international crisis of the gold standard in 1931 accelerated the monetary decline and the fall in prices. When Great Britain went off the gold standard in early September of 1931, the demand for gold shifted to the United States as holders of dollars anticipated that the U.S. would go off of the gold standard. Though the Fed had substantial excess gold reserves, it was unwilling to let a significant portion of these leave the country. It was also worried that a continuing gold drain might reduce its stock of monetary gold toward the legal minimum which it had to hold as reserves. To reduce the gold drain it sharply raised the discount rate, leading to sharp increases in other interest rates. The greater cost of selling American financial assets to get dollars to exchange for American

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gold stopped the gold outflow. However, the rise in the discount rate amounted to an extremely restrictive monetary policy and initiated a much more rapid contraction in high-powered money and the stock of money, leading to a rapid rise in the number of failing banks. This is what caused the decline in real GNP from 1931 to 1932 to be so large.

It appears that the U.S. contraction was ending in the summer of 1932, just as it was in most other countries.[22] The index of stock market prices reached its nadir in the summer of 1932 and the index of industrial production bottomed out at 53 in July, rising to 60 in October.[23] However, rather than continuing, the recovery faltered in August and September of 1932, with the onset of a new banking crisis.[24] As bank panics spread, bank holidays began to be declared, particularly in January and February of 1933. By the time Roosevelt took office on March 3, banks in about 30 states were closed due to some type of state or local bank holiday.[25] This final, convulsive tremor in the banking system extended the Depression into March of 1933, when Roosevelt's nationwide bank holiday and de facto exit from the gold standard ended the crisis and the Depression.[26]

There are two primary factors which explain this last banking crisis: the publication of the names of banks borrowing from the Reconstruction Finance Corporation, and uncertainty arising from the presidential campaign and Roosevelt's election.[27] The RFC lent to banks and trust companies as well as other businesses that were in difficulty because of the length and severity of the contraction. In July 1932, John Nance Garner engineered the passage of a bill which was interpreted to require that all names of borrowing banks be filed with the House and Senate, but not be generally publicized. However, within a short time Garner, as Speaker of the House and the recently chosen Democratic vice presidential candidate, ordered the general release of the lists.[28] Thereafter, each month the names of borrowing banks were publicized. In January 1933, the House resolved that the names of all banks receiving loans prior to July 21, 1932 also be made available to the general public. Over the strong objections of the RFC, the list was drawn up and published.

The publication of the names of borrowing banks had predictable consequences. If a bank's name appeared on the list it was taken as a sign that the bank was experiencing difficulties, and this accelerated the loss of deposits from such banks, raising the likelihood of their closing. Other banks, which might have borrowed from the RFC to alleviate problems, declined to do so in order to preclude runs. Alone this would not be expected to cause a general bank panic, since the public could simply withdraw money from the problem banks and redeposit it in sound banks. But this option was complicated by the larger number of banks experiencing difficulties in 1932. What turned this into a general banking panic in

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November of 1932 was the second and more important factor of Roosevelt's election and the long interregnum between the election and his inauguration.

During the campaign Roosevelt had stated that he would follow the Democratic platform, which specified adherence to "sound money," but exactly what sound money consisted of was not spelled out. Between his election and his inauguration on March 4, 1933, Roosevelt would not elaborate on his plans and refused to take a position on any of the policies proposed by Hoover. In mid-December Roosevelt's statements led European nations to believe that he would either reduce or forgive the payments on World War I debts which were due to the United States, and France and several other nations then cancelled the payments they were supposed to make. Most importantly, shortly after his election, rumors began to circulate that Roosevelt would turn to a devaluation of the dollar. Roosevelt refused to deny that such a policy was being considered, and the result was that for the first time depositors withdrawing their funds from banks began to demand gold. Citizens of the United States realized that if they were holding dollars rather than gold when the dollar was devalued they would lose, while if they were holding gold when this occurred they would realize a windfall. Their actions accelerated the runs on banks, worsened the banking crisis in January and February of 1933, and led to further declines in the stock of money and in prices.[29]

Cowen contends that during the Great Depression, "sticky wages" or "market imperfections" prevented equilibrating adjustments in nominal and real wages. The evidence summarized above does not support this contention. Though wage rates during 1930 were maintained by the unwise if well intended actions of the president and the nation's industrial leaders, nominal wage rates did begin adjusting in an equilibrating manner thereafter. The problem was that they were chasing a moving target due to the continuing decline in retail and wholesale prices caused by the continuing fall in the stock of money—and I have not heard anyone argue that firms should have been able to *anticipate* the resulting divergence of nominal and real wages. By 1932 nominal wage rates had fallen by what were historically very large magnitudes, and from 1931 to 1932 real wage rates had also fallen. The evidence indicates that, in fact, these adjustments were working and the Depression would have ended in the summer of 1932 if the politicians had not created a new monetary tornado. The publication of the names of banks borrowing from the RFC by the Democratic vice-presidential candidate, the presidential campaign, and Roosevelt's refusal to deny that the gold content of the dollar was to be reduced created a new banking crisis which extended the Depression into March of 1933.

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Gold and Free Banking

The one constant running through this discussion of the Great Depression has been the failure of monetary policy. A number of Keynesians now acknowledge that the 1931.1933 economic decline was primarily due to monetary problems. Some, such as Temin, are beginning to suggest that the monetary policy of late 1920s played a part in initiating the contraction, a point long advanced by the monetarists and Austrians. Though interventionists have suggested that this buttresses the case for greater regulation of banking activity (the federal government's response in the 1930s) and for the *appropriate* policy actions by the officials of the Federal Reserve System, the development of the theory of free banking has presented a laissez-faire alternative.[30]

In his reworking of classical monetary theory, David Glasner suggests that the roots of the Great Depression lie in the combination of the reintroduction of the gold standard in the 20s, government regulation of private banks, and monetary control by central banks.[31] In the latter part of the nineteenth century governments in most countries moved to monopolize note issues, install central banks and impose formal reserve requirements to back notes, and often deposits, in gold. The stockpiling of gold to create excess reserves as a buffer against unexpected withdrawals of gold (since the legal reserves could not be so used) increased the demand for gold, and according to Glasner, was a major factor in intensifying "the deflationary effects of the internationalization of the gold standard in the last three decades of the nineteenth century."[32]

The United States created its central bank just before World War I and then, like the other belligerents, went off the gold standard during the war. At the conclusion of the war the price levels of most countries were much higher than before. In the United States, even after the deflationary effects of the 1920.1921 depression, the price level was 50 percent higher than in 1914. However, the United States had also became the world's primary holder of gold; its share of the world's gold reserves grew from 40 to 44 percent between 1920 and 1923.[33] The U.S. was able to return to the gold standard at the pre-war ratio of $20.67 per ounce, but if other countries had tried to do the same, the resulting demand for gold would have caused severe deflation.

In 1922 an international conference in Genoa attempted to create a gold exchange standard, allowing most countries to hold monetary reserves in dollars or pounds, not gold, while the United States and Britain stood ready to redeem dollars or pounds for gold. This allowed a general return to the gold standard at pre-war ratios. By 1925 Britain had returned to gold at the pre-war parity of $4.86 per pound, but the combination of

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deflationary tendencies due to the overvalued pound and generous unemployment relief payments (which rose in real terms) generated high British unemployment rates throughout the decade.[34]

France began to stabilize the franc in 1926 and returned to the gold standard in 1928, but like most other countries returning to gold, it kept its central bank reserves in bullion and produced no gold coinage. The franc was undervalued, causing a persistent surplus in France's balance of payments. But as long as France accumulated bills in pounds and dollars, rather than gold, there was no problem.[35]

Unfortunately, interfering with normal market adjustments opened the door to disaster. After an easy money policy in 1927, the Fed began moving to end the speculative boom in the American stock market. In June 1928 the Fed raised the discount rate and began selling securities. This tight money policy, which was pursued through October 1929, drew gold into the United States, reversing the outflow of 1927. Additionally, in 1929 France began liquidating its holdings of foreign bills and importing gold. Glasner contends that this sharp increase in the world demand for gold was enormously deflationary and initiated the worldwide Great Depression.[36]

Even with the deflation, however, it is not clear that there would have been a severe and prolonged contraction without the banking problems. As depositors attempted to convert deposits into currency, the monopoly on note issuance by the Fed and its inability to effectively create and direct additional currency to those banks where it was demanded led to continuing runs on banks. Free banks issuing their own notes without formal *required* reserves, and able to choose between notes and deposits, would have been able to accommodate the demands of the public for additional currency. Many banks which were fundamentally sound but were unable to be flexible were driven out of business. If banks had been free to create competitive note issues, the great bank runs in the United States might never have occurred.[37] In the United States, in fact, it is likely that something less than free banking would have sufficed to preclude the banking panics of the Great Depression. Simply allowing interstate branch banking would probably have been adequate. In Canada, where national branch banking existed, the Depression did not last as long, the deflation was less severe, and no banking panics occurred.

Mid-1930s Stagnation and State Intervention

The recovery from the 1929.1933 contraction began in the second quarter of 1933 and ended in the second quarter of 1937, when the rate of unemployment was probably somewhat less than the 14.3 percent average for

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Table 3: Index of Total Industrial Production

Year & Month	Total Industrial Production Index	Year & Month	Total Industrial Production Index	Year & Month	Total Industrial Production Index
1933–1	20.4	1935–5	29.2	1937–9	40.4
1933–2	20.3	1935–6	29.6	1937–10	37.4
1933–3	19.2	1935–7	29.7	1937–11	33.8
1933–4	20.6	1935–8	30.7	1937–12	30.8
1933–5	24.0	1935–9	31.6	1938–1	30.1
1933–6	27.7	1935–10	32.6	1938–2	29.8
1933–7	30.2	1935–11	33.2	1938–3	29.8
1933–8	29.0	1935–12	33.7	1938–4	29.0
1933–9	27.4	1936–1	33.2	1938–5	28.6
1933–10	25.9	1936–2	32.4	1938–6	28.9
1933–11	24.4	1936–3	32.7	1938–7	30.5
1933–12	24.6	1936–4	34.7	1938–8	32.1
1934–1	25.4	1936–5	35.4	1938–9	33.0
1934–2	26.6	1936–6	36.1	1938–10	33.9
1934–3	27.9	1936–7	36.8	1938–11	35.3
1934–4	28.0	1936–8	37.3	1938–12	35.6
1934–5	28.4	1936–9	37.9	1939–1	35.8
1934–6	27.8	1936–10	38.6	1939–2	35.7
1934–7	26.0	1936–11	39.7	1939–3	35.7
1934–8	25.7	1936–12	40.8	1939–4	34.6
1934–9	24.6	1937–1	40.6	1939–5	35.0
1934–10	25.3	1937–2	41.2	1939–6	36.4
1934–11	25.5	1937–3	42.2	1939–7	37.3
1934–12	27.2	1937–4	42.2	1939–8	37.4
1935–1	29.4	1937–5	42.3	1939–9	40.6
1935–2	29.9	1937–6	41.8	1939–10	43.1
1935–3	29.8	1937–7	42.1	1939–11	44.0
1935–4	29.2	1937–8	41.7	1939–12	44.0

Source: Board of Governors of the Federal Reserve System, *Industrial Production, 1957–59 Base.* (Washington, D.C.: USGPO.)

1937. As a result, most analyses suggest that the recovery was unusually slow.[38]

Table 3 presents the Federal Reserve Board's monthly index of total industrial production from January 1933 through December 1939. The final banking crisis had led to a decline in production through March 1933, after which production began to rise sharply, reaching a value of 30.2 in July 1933, an increase of 45.3 percent in four months. Industrial produc-

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tion fell in August and continued to fall through November of 1933. From then through the end of 1934, the index of total industrial production remained well below the levels reached in July and August 1933. Production improved in the first seven months of 1935, but still did not reach the level of July 1933. In August 1935 the index finally exceeded the July 1933 level, from which it began a rather steady increase until the onset of the 1937-1938 depression. Thus, as Michael Weinstein has argued, the perception of a slow recovery from March 1933 through May 1937 is primarily due to the slow recovery from July 1933 through July 1935.[39]

Keynesian explanations for the slowness of the recovery date as far back as Alvin Hansen. In 1939, Hansen argued that the United States had entered into an era of *secular stagnation* in which, given the marginal propensity to consume, higher incomes generated higher rates of savings than could be used in productive investment. Since autonomous investment determined aggregate demand and the level of income in the Keynesian model, secular stagnation meant that government deficit spending would be needed to raise aggregate demand to a level which could generate full employment.[40] Such economists as Paul Baran and Paul Sweezy, Michael Kalecki, David Weintraub, and Josef Steindl relied upon similar or more sophisticated explanations.[41] With World War II and the postwar boom, however, Hansen's secular stagnation hypothesis lost most of its support.

Michael Bernstein argued that industrial investment was unable to return to a level high enough to promote full employment due to changing consumer demands and secular changes in technology, caused in turn by the emergence of new industries which required shifts in the location and types of investment expenditures. With the disruption in financial markets due to the Depression, these newer industries were unable to obtain the investment funds they required while the older industries, which could obtain the funds, were not growing sufficiently to generate the investment to move toward full employment.[42]

The most direct expression of Keynesian theory, however, was developed by E. Cary Brown in 1956 and revised by Larry Peppers in 1973.[43] Brown concluded that expansionary fiscal policy had not been used during the 1930s. Peppers found that only in 1936 did the federal government's fiscal policy move to an expansionary position, a "full-employment budget deficit." According to Peppers, federal fiscal policy became increasingly restrictive in 1933, 1937, and 1938. The Keynesian solution, Brown and Peppers contended, would have been to increase spending while cutting taxes or holding them constant. But with tax revenues either held constant or cut, borrowing would have had to finance the new spending envisioned in this scenario. My own study suggested that borrowing to finance a larger deficit would have led to sharp decreases in

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spending elsewhere, largely negating any effects of an expansionary fiscal policy.[44]

In any event, none of the Keynesian hypotheses explain the pattern of recovery from March 1933 to July 1937. As noted, the slow recovery primarily reflects the stagnation of the recovery from July 1933 through July 1935. Tables 1 and 2 also show that wage rates jumped sharply from 1933 to 1934. Nominal wage rates for all manufacturing industries rose 18.6 percent, while for bituminous coal mining nominal wage rates rose 28.3 percent; yet the index of the composite farm wage rose only 8.7 percent. Real wage rate changes show a similar pattern, with increases of 11.5 percent for all manufacturing industries, 21.1 percent for bituminous coal mining, and 1.6 percent in the composite farm wage. At the same time, the average number of hours worked in manufacturing fell by 7.2 percent. As Michael Darby has written, "This is extremely peculiar behavior for the average hours of work, which is normally a very reliable leading indicator—leading more at peaks than at troughs."[45] In fact, this is the only time hours worked fell rather than rose at the beginning of a recovery since such statistics began to be collected in the twentieth century.

The explanation for all of this, contrary to Cowen, is the National Industrial Recovery Act, one of the cornerstones of FDR's New Deal. NIRA was enacted on June 16, 1933. One part of the act was the Public Works Administration, which was to construct large public works and thus directly provide employment. The other part was the National Recovery Administration, which was an attempt to create government-sponsored cartels in all the important American industries and wholesale and retail trades. Roosevelt described the program as one which would promote a great cooperative movement to begin employing the unemployed, "to shorten the working week, to pay a decent wage for a shorter week, and to prevent unfair competition and disastrous overproduction."[46] Code authorities were created in each of the affected industries in order to develop codes of "fair competition" regulating prices, trade practices, wages, hours of work, conditions of work, and collective bargaining. When approved by the NRA, the codes were binding upon the covered firms and could be legally enforced, though this option was not often used.

Although 209 national industry codes were submitted between the 9th and 20th of July 1933, this was not considered rapid enough by FDR or by General Hugh Johnson, the head of the NRA. As a result, they requested all industries to submit to a blanket code until individual industry codes had been formulated. The emphasis of the blanket code was on shortening the work week, raising wage rates, and minimizing price increases, while

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individual industry codes emphasized price hikes. Usually the codes attempted to eliminate price competition by requiring firms to price at full cost and by standardizing those costs between firms by requiring uniform cost-accounting procedures. Firms were also required to publish a price list to be provided to all of their competitors and to provide prior notice of any price changes. The production limitations included ceilings on the number of hours a machine or plant could be operated, maximum production quotas for individual firms, restrictions on the production capacity of individual firms, and limitations on the inventories a firm could carry.[47]

Section 7a of NIRA attempted to gain labor's support by requiring firms to recognize labor organizations and bargain in good faith with their elected representatives. This opened the door to a wave of violent strikes and confrontations. When court decisions ruled that the language of section 7a did not preclude company unions, many firms organized such unions in order to head off independent ones. However, some independent unions were quite successful in organizing workers, particularly John L. Lewis's United Mine Workers, Sidney Hillman's Amalgamated Clothing Workers, and David Dubinsky's International Ladies' Garment Workers Union. Lewis's success in organizing coal miners is the reason that bituminous coal miners' nominal and real wage rates rose so sharply from 1933 through 1937.[48]

It should now be clear why the rapid recovery which began in April of 1933 lasted only until July of the same year. By August and September the full force of the NRA was beginning to be felt. By raising wage rates and prices, shortening the work week, reducing production and investment, and attempting to eliminate competition, the NRA stopped the nascent recovery. By the spring of 1935 the NRA was in disarray due to continuing disagreements between some firms and poor compliance by others, and it was widely criticized for promoting monopolistic practices and allowing industry associations to be dominated by large firms. Labor disputes were widespread and growing. On May 27, 1935, the Supreme Court ruled that NIRA was unconstitutional and effectively ended its two-year flirtation with legalized cartels. Weinstein and others argue that this explains why in August of that year, industrial production and economic activity began a sustained increase that would continue until the onset of a new depression in May 1937.[49]

Cowen dismisses NIRA as an important factor in slowing down the rate of recovery by arguing that

> First, the onset and removal of NIRA do not coincide with peaks and troughs of the Depression or unemployment. The initial depression phase reached its trough in March 1933, before NIRA was enacted. The NIRA years (from June 1933 through May 1935) actually saw a partial recovery, until a

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> new setback in 1937. Second, the data on real wages show no additional upward pressure coming in 1933 or ending in 1935. . . . Finally, even though NIRA raised nominal wages, it is not clear that it increased real wages, because price supports were implemented as well.[50]

I am unaware of anyone who argues that NIRA explains the Great Depression, since the initial contraction had ended prior to its enactment. What has been increasingly argued is that NIRA is a major explanation for the sluggish pace of the recovery. As noted above, Darby has suggested that the peculiar behavior of average hours of work and wages in 1933 must be explained by NIRA. Michael Weinstein's detailed analysis, referred to above, has buttressed the claim that the rapid recovery from March through July 1933 turned into stagnation due to the implementation of NIRA from the summer of 1933 to the spring of 1935. A much more rapid recovery commenced by the end of the summer of 1935 and continued until the 1937 depression cut it off. As noted above, nominal and real wage rates, which rose sharply from 1933 to 1934, also support this view: all of the available evidence suggests that these increases were primarily attributable to NIRA.[51]

Explanations of the 1937–1938 Depression

This brings us to 1937, which Cowen bypasses, but which the present argument requires us to consider. The early Keynesian explanations for the 1937–1938 depression—such as secular stagnation, falling consumption as prices rose faster than wages, increased income and capital-gains taxes, and monopoly pricing—were quickly discredited.[52] The most durable Keynesian explanation has been that there was a change to a restrictive fiscal policy as the federal budget moved from a full-employment budget deficit to a full-employment budget surplus. By December 1936, checks for $1.4 billion of the $1.7 billion of veterans' bonus payments, which had begun to be issued in June, had been cashed and spent. Conversely, Social Security taxes on employers rose from 1 to 3 percent in 1937.[53] But as I suggested above, there are problems with such an explanation. The additional spending, due to the veterans' bonus payments, required additional borrowing by the federal government. How is it that this did not lead to reduced spending elsewhere? Conversely, the reductions in government spending and higher tax revenues in 1937, to which Keynesians attribute the start of the contraction in June, should have brought about a reduction in government borrowing. Why did this not reduce interest rates and lead to increases in other spending?

More viable explanations lay the contraction at the doorstep of gov-

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ernment intervention. Monetarists contend that the Fed unwisely shifted to an extremely contractionary monetary policy because of its concern over the large buildup in banks' excess reserves and the shift in bank assets from loans toward securities. In the belief that this reflected a temporarily insufficient supply of qualified borrowers, the Fed saw the excess reserves as an inflationary time-bomb. To reduce the risk, the Fed used its new ability to impose variable reserve requirements in order to reduce the excess reserves. Between August 1936 and May 1937, the Fed doubled the required reserve ratios. Friedman and Schwartz argue that in response, banks set out to rebuild excess reserves. This led to a decline in the stock of money and set off the 1937 contraction.[54] The behavior of interest rates, bank reserves, and the stock of money lend support to this explanation.

Arguably just as important as the monetary explanation were the great unionization drives lasting from 1936 through the first half of 1937, which led to sharp increases in nominal and real wage rates without compensating demand or productivity increases. This raised firms' costs, leading to falling output and then layoffs.[55]

Even before NIRA had been ruled unconstitutional, Senator Robert Wagner, the author of Section 7a, had been unhappy with its results. In 1934 he began drawing up a National Labor Relations Bill to better promote unionization. On July 5, 1935, the bill became law. The Wagner Act established labor's right to organize and engage in collective bargaining by banning company unions, prohibiting a firm from interfering with, restraining, or coercing employees as they sought to organize and engage in collective bargaining, forbidding employer discrimination against union members, prohibiting employers from firing or discriminating against employees who filed charges or testified under the Wagner Act, and requiring firms to collectively bargain with unions. If necessary the National Labor Relations Board could order a firm to conduct an NLRB-supervised free, secret election among its employees. To enforce the provisions of the NLRA, the National Labor Relations Board was created to hear and decide on unfair labor practices, determine the collective bargaining unit, and conduct elections. It could issue cease-and-desist orders against firms and, if this were not sufficient, turn to the U.S. Circuit Court of Appeals to enforce them.

The Wagner Act was the culmination of a three-year long process of pro-labor intervention. The Norris-LaGuardia Act had made the "yellow-dog" contract unenforceable, and limited the courts' powers to initiate injunctions against union organizing. It had also approved secondary boycotting and picketing by nonemployees. Section 7a of NIRA went further, but did not create enforcement powers or clearly prohibit company

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unions. The Wagner act did all of this and more, severely weakening employers' legal rights to deter their employees from organizing. By April of 1937 the Supreme Court had upheld the constitutionality of the Wagner Act in *NLRB v. Jones and Laughlin*.

During 1935 the American Federation of Labor resisted efforts to unionize firms in the large mass production industries.[56] At the end of the year eight AFL unions, anxious to use the new powers granted by the Wagner Act, formed the CIO to begin organizing the mass production industries.[57]

Their organization drives began in December 1936. General Motors was one of the first firms targeted and in February 1937, after a bitter strike employing the new "sit-down" tactic to occupy plants and effectively stop production even by strikebreakers, Alfred Sloan led GM to recognize the United Auto Workers. By May all of the other important automobile companies but Ford had also recognized the UAW; Ford delayed unionization by means of violent tactics and by paying the same wage rates as the unionized companies. Meanwhile, U.S. Steel and the smaller steel firms were organized, while "Little Steel," the next six largest integrated producers after U.S. Steel, delayed unionization only by paying the same wage rates and offering the same hours as U.S. Steel and the organized firms. Firms producing electronic products, such as GE and Westinghouse, and manufacturers of construction equipment, farm implements, metal products, and other heavy industrial commodities were also unionized.[58]

The result was that wage rates increased and overtime pay for work in excess of 40 hours was inaugurated. At U.S. Steel and most of the other steel firms, nominal wage rates rose more than 17 percent. These sudden wage increases in early 1937 were not matched by increases in demand or increases in labor productivity. Tables 1 and 2 show the effect of this when averaged over all manufacturing firms. For all manufacturing firms nominal wage rates rose 12 percent from 1936 to 1937, while real wage rates rose 7.8 percent. For durable goods manufacturers, nominal wage rates rose 14.4 percent and real wage rates, 10.3 percent, while for nondurable goods manufacturers nominal wage rates rose 9.2 percent and real wage rates increased by 5 percent.

It is thus plausible that the actions of the Fed, combined with the NLRA's promotion of unionization, were responsible for the 1937-1938 depression. Probably neither one alone would have been sufficient, since from 1933 to 1934 the sharp increases in nominal and real wage rates, along with the other affects of NIRA, while effectively stalling the recovery did not initiate a new depression. In 1937 rising wage rates were accompanied

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by a sharply contractionary monetary policy which may have been enough to set off a contraction.

Intervention and the Slow Prewar Recovery

The recovery from the 1937-1938 Depression is, like the recovery from the Great Depression, generally judged as abnormally slow. By conventional measures full employment was not achieved until 1942. There are several plausible non-Keynesian explanations. First, the Fed maintained the maximum reserve ratios until May 1938, when they were lowered slightly.[59] By the middle of 1938 most of the national banks had largely restored their excess reserve positions and the stock of money stopped falling, allowing economic activity to begin to recover.[60] The slow recovery may also have reflected the fact that it took time to adjust to the sharp increases in wage rates that had occurred with unionization. Only wages in the unionized industries had sharply increased during 1937, so market adjustments were necessary to shift resources and labor away from those firms where wage rates had increased. Overall nominal wage rates did not increase during the 1937-1938 depression. However, in the durable goods manufacturing and bituminous coal mining industries, nominal wage rates did increase, even in the face of the severe contraction, testifying to the effectiveness of the unions' new powers. Since prices fell from 1937 to 1938, real wages increased overall.

In the meantime, finding itself unable to cartelize American industry, the Roosevelt administration turned to "trust-busting." If firms could not be effectively combined into large controllable units which would behave "correctly," then big businesses should be broken into smaller ones. In 1936 and 1937 the Robinson-Patman and Miller-Tydings Acts were passed to protect smaller firms. In 1937 the administration accelerated its attack on "monopolies," convenient scapegoats upon which to place the blame for the current depression. Under the leadership of Robert Jackson, the Antitrust Division of the Justice Department undertook several major cases and began initial proceedings in a number of others. In 1938 the Temporary National Economic Committee was established and charged with exposing the price-fixing and other monopolistic behavior which had allegedly brought on the 1937 depression. When in 1938 Thurman Arnold, former head of Yale Law School, replaced Robert Jackson as head of the Antitrust Division, antitrust activity expanded even more vigorously. Ceteris paribus, this was bound to create a climate hostile to business confidence and expansion.

Finally, the 1938 Fair Labor Standards Act subjected businesses to minimum wage and maximum hours legislation. This boosted wage rates and

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labor costs for many businesses that had escaped the increased labor costs caused by unionization. Again, one would expect that higher labor costs without an increase in productivity would, as with the classic case of legally mandated minimum wages, cause unemployment and further slow economic recovery.

The World War II "Recovery"

After September 1939 the demands from countries involved in World War II provided a stimulus which began to accelerate the recovery. In addition, after 1939 the Fed adopted a quite expansionary monetary policy in order to make it easier for the government to pursue its military buildup. The stock of money grew by nearly 23 percent from January 1940 to January 1942.[61] Cowen follows most Keynesians in asserting that, with the entry of the United States into World War II, the rapid rise in government spending, well in excess of increases in tax revenues, stimulated aggregate demand and restored full employment, just as the Keynesian model predicted. But if the money used to purchase the bonds sold to finance the deficit would otherwise have been spent by firms and individuals for other commodities and services, then the increase in aggregate demand is illusory. Thus, Keynesians have implicitly had to assume that most, if not all, of the money to buy the bonds came from completely idle money (in fact, essentially cash) balances, i.e., that the deficit increased the income velocity of the existing stock of money. Yet no evidence has been produced to show that this condition did obtain. And *if it did,* then the Keynesian model can be said to work only through an increase in the effective stock of money.

Another question raised by Cowen's account is whether the economy really did expand dramatically due to the war. There is a long tradition of dissent from accepting the national income statistics of the war years; the distortions caused by wage and price controls and rationing may, for example, have hidden the inflation brought about by the expansion in the stock of money and by the shortages that were endemic in the wartime economy.

The standard Keynesian account relies upon three facts about the war years. First, unemployment virtually disappeared. Second, the standard measure of GNP increased sharply. Third, the standard measure of real private consumption increased slightly. However, the Keynesian account overlooks key aspects of the period—particularly that the United States was a command economy.

Robert Higgs's recent assessment of the period points out that in 1940, 14.6 percent of the labor force was unemployed.[62] (If one excludes those

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employed by New Deal emergency programs, as Michael Darby does, the figure drops to 9.5 percent.) By 1945, 18 percent of the labor force was in military service, and at least 63 percent of the military was conscripted. It is no wonder, then, that private civilian unemployment virtually disappeared: the government drafted more than all of those who were unemployed before the war began. One hardly needs Keynes to explain this "recovery"; the only question is whether conscription into often fatal service should count as recovery at all.

According to government statistics, real GNP grew dramatically during the war and then dropped sharply in 1946. Higgs notes that Simon Kuznets, a leading figure in the development of national income accounting, expressed serious reservations about these figures as early as 1945.[63] In subsequent years, as he developed and extended the National Income Accounts back in time, Kuznets became even more critical of the National Income Accounts data for the war years.[64] Higgs reports that Kuznets argued that war production was significantly overpriced, leading to GNP figures which were unrealistically high. Munitions output was the prime example of such overpricing. "[Department of] Commerce economists admitted the validity of Kuznets' criticism, but they failed to make the necessary corrections," Higgs writes.[65]

Kuznets estimated that real GNP during the war years remained low, that it rose sharply at the end of the war, and that it continued to rise until 1949, when it converged with the Commerce Department's estimates. Kuznets also argued that a defensible measure of GNP as a measure of economic welfare should exclude all military spending except that which finances additions to the military capital stock.[66] Nordhaus and Tobin have proposed adjustments to transform the standard GNP into what they call a measure of economic welfare, MEW.[67] One of the adjustments was to exclude all national defense spending. Once this is done, real GNP in 1944 is no larger than in 1941, and "only with the end of the war did the economy at last break out of its fifteen year era of substandard performance."[68] The need for such revisions is underscored by Gallaway and Vedder's research.[69] They have raised serious questions about the standard data by showing that according to unadjusted national income figures from recent *Economic Reports of the President*, the real GNP per capita alleged to have been achieved by 1944 was not again reached until 1964![70]

Higgs also points out that not only did the price indices understate inflation, but that price controls led to deterioration in the quality of many commodities and to the actual disappearance of many others. Moreover, many consumer items were rationed by non-price methods, and consumers bore greater transactions costs in attempting to obtain what goods actually were available.[71] Higgs notes that if one uses the price index

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recently developed by Milton Friedman and Anna Schwartz,[72] real per capita consumption peaked in 1941, declined, and then, though recovering, still did not reach the 1941 level until 1946. Consumers often were forced to relocate; they faced deteriorating housing due to rent controls; they had access to fewer and inferior food products, particularly meat; and they faced rising transportation costs, since no new cars were produced, used cars and parts were hard to obtain, gasoline and tires were rationed, and public transportation was crowded and often requisitioned by the military. People generally worked longer and harder for less. The real recovery began in 1946, not 1941.

Investment Volatility: Rational or Random?

Cowen credits Keynes with explaining the volatility of stock markets and investment demand, claiming that stock markets even today seem to be excessively volatile relative to the underlying fundamentals, that we still have trouble explaining large and sudden price changes such as occurred in October 1929 and October 1987, and that market economies "are at the mercy of potentially unstable expectations."[73] However, very few economists today suggest that the Great Depression was caused by the 1929 stock market crash. The contraction began well before the crash and probably was a factor in ultimately bringing on the dramatic adjustments in stock market prices in September and October of 1929.

Cowen implies that in 1929 there was a causal connection running from the fall in stock prices in September and October to a decline in investment. What he does not note is that after stock prices had been driven downward between September 3 and November 13, they rose until April of 1930. The Dow Jones index peaked at 381 on September 3, 1929, dropped over 65 percent to 198 on November 13, 1929, and then rose nearly 40 percent to peak at 294 in April 1930, after which it commenced a nearly unrelenting decline until the summer of 1932. For the relationship implied by Cowen to be established, the rise in stock market prices from early November 1929 through April 1930 should have increased investment, and, according to the Keynesian scenario, led to a recovery. There is no evidence that this happened.

The stock market crash of 1987 was quite similar to that of 1929. In 1987 stock market prices declined from mid-August to mid-October, when the greatest one-day crash in history occurred. Prices then began to recover, just as they did in 1929 and 1930. If the relationship between stock market prices and investment demand holds, then there should have been a severe decline in investment (and, according to Keynesians, in GNP), but no such decline occurred in 1987 or 1988.

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Jude Wanniski has argued forcefully that the threat of tariff increases has often determined the timing of these changes in stock market prices. Wanniski argues that in late October 1929 there was a breakdown in the coalition opposing the Smoot-Hawley tariff, explaining the timing of the sharp break in prices. In April 1930 it became clear that Congress was going to pass the Smoot-Hawley tariff. Protests and threatened retaliation from governments around the world began rolling into Washington and stock market prices began their long decline.[74]

Cowen argues that the volatility of stock market prices led many economists to accept the Keynesian assertion that investment is therefore unstable, and concludes that "the Depression era offered support for the Keynesian belief that investment demand is subject to drastic swings."[75] But not only is it unproven that stock market volatility leads to volatility in investment demand; this would not support the Keynesian view of how economic activity is determined. Investment plays such an important role in the Keynesian model because it is, for the most part, considered to be *autonomous* spending which is therefore capable of *determining* the level of income. According to Keynes, investment demand is driven by the "animal spirits" of entrepreneurs and, being subject to wild and unpredictable swings, threatens capitalist economies with irrational economic depressions.

It was not long before Keynesians had to admit that in fact some, if not much, investment demand is induced by the expected level of other demands and that this is largely traceable to the level of income. This resulted in multiplier-accelerator models, according to which changes in investment demand are no longer completely autonomous. Accelerator investment mechanisms were made flexible, smoothing out the variations in the level of investment resulting from changes in investment demand. Studies of the relationship between consumption spending and income found that the early postulated relationship was invalid. This postulate held that if the marginal propensity to consume is, say, 0.8, then if consumers have an additional $1,000 of income in a given period, their consumption spending should rise by $800 in that or the next period. This gives rise to the multiplier and magnifies the effect of autonomous changes in investment spending. Studies found that this did not, in fact, represent how consumers changed their spending in response to income changes. Keynesians then developed models where consumption spending was determined by the consumer's permanent income or the consumer's expected income over his/her lifetime. Only if, say, a fall in income now is expected to be permanent will it have much effect on the consumer's current and planned spending. If it is temporary, there will be little effect on the consumer's current and planned consumption purchases. With

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these changes the ability of shifts in *autonomous* investment demand to set off a change in spending and initiate a business cycle largely disappeared. In fact, for the most part investment demand was no longer considered autonomous.

One must also question the underlying Keynesian logic. Investment demands by the multitude of individual firms and households—whether for new machines and buildings, replacement machines and buildings, inventories, or consumer housing—are merely a portion of the whole range of demands. Households also demand durable consumer goods (which are really investment goods) such as refrigerators, stoves, and automobiles, and semi-durable goods and services such as clothes, haircuts, movies, baseball games, and stage shows. The demands for various *specific* capital goods (investment demand) from individual firms and individual households are simply a part of all of these demands. If "investment demand," i.e., the demands for some *specific* capital goods decline then there must be offsetting demand increases elsewhere.[76] The role of the price system is to facilitate the reallocation of resources to the production of those capital and consumer goods and services which satisfy the more urgent demands of consumers. When a depression or economic contraction occurs, something has stopped the price system from performing this function by either interfering with price changes or distorting the relationship between price changes and the results they would normally cause. Until the advent of Keynesian economics, economists most often looked to monetary disturbances or government regulations and other interferences as the factors which would bring about price distortions or stop prices from changing.

If the price system was not operating appropriately, due to monetary disturbances and government interference—as has been argued above—then the various measured amounts of investment could fall along with measured GNP without in any way indicating that the decline in investment *caused* that in GNP. In fact, disruptions in the price system can cause most types of demand, including the demand for various investment goods, to fall, rather than vice versa. Therefore, contrary to what Cowen suggests, the greater variability of gross private domestic investment in the 30s is not another piece of evidence for the validity of the Keynesian explanation of the Great Depression.

Postwar Prosperity

Cowen concludes by suggesting that economies across the world, including the United States, have experienced "remarkable stability and growth" in the postwar era despite the fact that "the role of government in macro-

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economic planning has increased dramatically across the world. This increase has not prevented economies from compiling a successful track record." But for Cowen to find in postwar economic success a vindication of Keynesianism assumes that Keynesian policies were practiced. Yet in the United States, Keynesian policies were not adopted until the Kennedy-Johnson tax cut of 1964, which was not enacted in order to *stabilize* aggregate economic activity.[77] Nor has countercyclical fiscal policy been in much evidence since 1970.[78] Whether we would have done better to pursue either Keynesian or laissez-faire policies is beyond the scope of the present paper.

NOTES

1. Tyler Cowen, "Why Keynesianism Triumphed Or, Could So Many Keynesians Have Been Wrong?," *Critical Review* 3, nos. 3–4 (Summer-Fall 1989): 518–30.
2. Ex post, such a pattern does not appear to have been unusual. For example, the initial contraction in 1937, from about April to the end of August, does not appear to have been severe. From the end of August 1937 through April 1938 there was a dramatic decline in the stock market and in economic activity, a stock market crash which was equally as severe as that from the beginning of September 1929 through the end of October 1929.
3. Robert J. Gordon and James A. Wilcox, "Monetarist Interpretations of the Great Depressions: An Evaluation and Critique," in Karl Brunner, ed., *The Great Depression Revisited* (Boston: Martinus Nijhoff, 1981).
4. Robert A. Gordon was a notable advocate of this Keynesian explanation. See Robert A. Gordon, "Business Cycles in the Interwar Period: The Quantitative Approach," *American Economic Review* 39 (May 1949): 47–63; "Cyclical Experience in the Interwar Period: The Investment Boom of the Twenties," in *Conference on Business Cycles* (New York: National Bureau of Economic Research, 1951); "Investment Behavior and Business Cycles," *Review of Economics and Statistics* 37 (February 1955): 23–34; "Population Growth and the Capital Coefficient," *American Economic Review* 46 (June 1956): 307–22; and *Economic Instability and Growth: The American Record* (New York: Harper and Row, 1974). Also see Joseph Schumpeter, *Business Cycles*, 2 vols. (New York: McGraw-Hill Book Co., 1939); George Soule, *Prosperity Decade* (New York: Harper and Sons, 1951), ch. 13; Edwin Nourse, et al., *America's Capacity to Produce* (Washington: Brookings Institution, 1934); Bert G. Hickman, *Growth and Stability of the Postwar Economy* (Washington: Brookings Institution, 1960); and Richard F. Muth, "The Demand for Non-Farm Housing," in A. C. Harberger, ed., *The Demand for Durable Goods* (Chicago: University of Chicago Press, 1960).

   The studies of Lloyd Mercer and W. Douglas Morgan and P. J. George

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and E. H. Oksanen have raised questions about the role of the declining automobile industry investment in initiating the contraction. See L. J. Mercer and W. D. Morgan, "The American Automobile Industry, Investment Demand, Capacity, and Capacity Utilization, 1921–1940," *Journal of Political Economy* 80 (November/December 1972): 1214–31; "Alternative Interpretations of Market Saturation: Evaluation for the Automobile Market in the Late Twenties," *Explorations in Economic History* 9 (Spring 1972): 269–90; and "Internal Funds and Automobile Industry Investment: An Evaluation of the Seltzer Hypothesis," *Journal of Economic History* 32 (September 1972): 683–90. Also see P. J. George and E. H. Oksanen, "Saturation in the Automobile Market in the Late Twenties: Some Further Results," *Explorations in Economic History* 11 (Fall 1973): 73–86.

More recent analyses of the effects of the 1920s housing market on the Depression can be found in the following: Ben Bolch, Rendig Fels, and Marshall McMahon, "Housing Surplus in the 1920s?," *Explorations in Economic History* 8 (Spring 1971): 259–84; Ben Bolch and John Pilgrim, "A Reappraisal of Some Factors Associated with Fluctuations in the United States in the Interwar Period," *Southern Economic Journal* 39 (January 1973): 327–44; Lloyd J. Mercer and W. Douglas Morgan, "Housing Surplus in the 1920s? Another Evaluation," *Explorations in Economic History* 10 (Spring 1973): 295–304; and Bert G. Hickman, "What Became of the Building Cycle?," in Paul David and Melvin Reder, eds., *Nations and Households in Economic Growth: Essays in Honor of Moses Abramovitz* (New York: Academic Press, 1973). Most of these studies are reviewed in Peter Temin, *Did Monetary Forces Cause the Great Depression?* (New York: W. W. Norton, 1976).

Clarence Barber proposed that the Great Depression and slow recovery of the post-1933 period were explained by the changes in the rate of growth of population in the 1920s. However, such an explanation lacks credibility given the greater changes in the rate of population growth in the 1960s and 1970s without a similar economic result. See Clarence Barber, "On the Origins of the Great Depression," *Southern Economic Journal* 44 (January 1978): 432–56.

5. Temin, 69–83. Thomas Mayer, "Consumption in the Great Depression," *Journal of Political Economy* 86 (February 1978): 139–46.
6. See Milton Friedman and Anna Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton: Princeton University Press, 1963), 300–301.
7. Temin, 123. See also *ibid.*, 1, 137, and 170.
8. Anna J. Schwartz, "Understanding 1929–1933," in Brunner, 25–6.
9. If the Federal Reserve System had simply begun to expand the stock of money at a constant rate, then real interest rates would have risen to the level consistent with consumer preferences and the excessive level and misallocation of investment would have been revealed. Thus, only an acceleration of the rate of growth of the stock of money could postpone

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this, and the FRS could not have continuously sustained such an acceleration.

10. It is not clear whether the monetarist position suggests that with steady monetary growth, there would have been no contraction, or whether there would have been a much milder contraction. Similarly, it is unclear whether the argument is that there would have been no stock market crash, or a milder one.

11. Peter Temin's book, *Did Monetary Forces Cause the Great Depression?*, led the way in this re-evaluation of the monetarists' explanation. Thomas Mayer's article, "Consumption in the Great Depression," supported Temin's questioning of the importance of the late 1930 bank failures. Elmus Wicker found that the bank failures in the Southeast at the end of 1930 were not symptomatic of a general bank run but were concentrated in specific banks whose solvency was in question. These were largely related to the failure of a large investment banking firm in Nashville, Tennessee. Elmus Wicker, "A Reconsideration of the Causes of the Banking Panic of 1930," *Journal of Economic History* 40 (September 1980): 571–83. Eugene Nelson White found that most of the failing banks could have been predicted in advance because of poorly performing loans from the 1920s. Eugene Nelson White, "A Reinterpretation of the Banking Crisis of 1930," *Journal of Economic History* 44 (March 1984): 119–38. In a follow-up study Wicker found no evidence that the late November and December banking crises initiated any sharp change in depositor and banker behavior which might have led to a decline in the supply of money. Elmus Wicker, "Interest Rate and Expenditure Effects of the Banking Panic of 1930," *Explorations in Economic History* 19 (October 1982): 435–45. Both Wicker and Joseph Lucia argued that the December failure of the Bank of the United States did not have the profound consequences which the monetarists had suggested. Joseph L. Lucia, "The Failure of the Bank of the United States: A Reappraisal," *Explorations in Economic History* 22 (October 1985): 402–16. See also Milton Friedman and Anna Schwartz, "The Failure of the Bank of the United States: A Reappraisal. A Reply," *Explorations in Economic History* 23 (April 1986): 199–204.

12. Jude Wanniski has proposed that the imminent passage of a much broader and more protective tariff bill explains the stock market crash in late October 1929, and that its passage in June of 1930 brought about the end of the recovery of stock prices which had taken place from early November 1929 to April 1930. Stock prices then began a devastating decline which ended in the early summer of 1932. Jude Wanniski, *The Way the World Works: How Economies Fail, and Succeed* (New York: Basic Books, 1978), ch. 7.

13. See Max Gideonse, "Foreign Trade, Investments, and Commercial Policy," in Harold F. Williamson, ed., *The Growth of the American Economy*, 2nd ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1951), ch. 41; Charles Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press,

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1973); and George Soule, *Prosperity Decade: From War to Depression 1917–1929* (New York: Holt, Rinehart, and Winston, 1947), ch. 12.

14. David Glasner, *Free Banking and Monetary Reform* (New York: Cambridge University Press, 1989), 124.
15. Murray N. Rothbard, *America's Great Depression* (Kansas City: Sheed and Ward, 1975 [1963]), 291. Lowell Gallaway and Richard Vedder have also placed great emphasis on variations in real, productivity-adjusted wage rates as a major factor in explaining the Great Depression as well as other contractions in the twentieth-century American economy. Lowell Gallaway and Richard Vedder, "Wages, Prices, and Employment: Von Mises and the Progressives," *Review of Austrian Economics* 1 (1987): 33–80.
16. Irving Bernstein, *The Lean Years: A History of the American Worker, 1920–1933* (Boston: Houghton Mifflin, 1960), 251–61. As do many historical commentators, Bernstein argues that an important factor in the severity of the Depression was that firms *failed to keep their promise to President Hoover to maintain money wages and maintain employment!* Cowen (521) notes that wages began to fall sooner in smaller than larger businesses: "Furthermore, even if Hoover's jawboning influenced the business leaders present at his meetings, it is unlikely that his strictures had much influence on small businessmen. More than 50 percent of manufacturing employees worked for businesses employing fewer than 300 workers." What Cowen does not note is that these differential changes in nominal (and real) wage rates were additional price distortions which produced further price distortions which must have taken time to be corrected, which surely caused the depression to be longer and more severe.
17. Cowen, 520–21.
18. Temin, ch. 3.
19. Alfred D. Chandler, Jr. has developed this thesis in considerable detail. Alfred D. Chandler, Jr., *Strategy and Structure: Chapters in the History of Industrial Enterprise* (Cambridge, Mass.: MIT Press, 1962); id., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass.: Harvard University Press, 1977); id., "The United States: Seedbed of Managerial Capitalism," in *Managerial Hierarchies: Comparative Perspectives on the Rise of Modern Industrial Enterprise*, ed. Alfred D. Chandler, Jr. and Herman Daems (Cambridge, Mass.: Harvard University Press, 1980); Alfred D. Chandler and Richard S. Tedlow, *The Coming of Managerial Capitalism* (Homewood, Ill.: Richard D. Irwin, Inc., 1985).
20. Personal conversation with Richard Vedder, November 11, 1990.
21. Cowen, 521.
22. This point has often been made. For example see Lawrence Sullivan, *Prelude to Panic: the Story of the Bank Holiday* (Washington: Statesman Press, 1936), ch. 1; Cyril B. Upham and Edwin A. Lamke, *Closed and Distressed Banks* (Washington, D.C.: U.S.G.P.O., 1934), 148–51; William S. Myers and Walter H. Newton, *The Hoover Administration: A Documentary Narrative*

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(New York: Charles Scribner's Sons, 1936), ch. 18; Gordon, *Economic Instability*, 57; Lester V. Chandler, *American Monetary Policy, 1929–1941* (New York: Harper and Row, 1971), 209–10; Friedman and Schwartz, 324.

23. Reported in Ben Bernanke, "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression," *American Economic Review* 73 (June 1983): 262.
24. The following information is primarily drawn from Susan E. Kennedy, *The Banking Crisis of 1933* (Lexington, Ky.: University of Kentucky Press, 1973), and Richard H. Keehn and Gene Smiley, "U.S. Bank Failures, 1932–1933: A Provisional Analysis," *Essays in Economic and Business History* 6 (1988): 136–56.
25. Kennedy, 150–51.
26. It is clear that it was the 1932–1933 banking crisis which stopped the recovery from beginning in the summer of 1932. Peter Temin and Barrie Wigmore recently suggested that the reason the recovery began in the early summer of 1933 was President Roosevelt's success in establishing a new macroeconomic policy regime. Peter Temin and Barrie A. Wigmore, "The End of One Big Deflation," *Explorations in Economic History* 27 (October 1990): 483–502. My argument suggests that the only reason the recovery failed to begin in the summer of 1932 (not the summer of 1933) was the final banking crisis. I do not think that it is necessary to suggest that Roosevelt established a "new" macroeconomic policy regime to explain why the recovery began in the summer of 1933.
27. Most of the following discussion is drawn from Keehn and Smiley.
28. John Nance Garner had been selected as Roosevelt's vice presidential running mate in July of 1932. Sullivan shows that he used all his powers as Speaker of the House to obstruct the reconstruction program; as he said, "I hold the most powerful position in the government excepting that of President of the United States." Sullivan, ch. 2, especially 15–17.
29. This is discussed in considerable detail in Sullivan, especially chs. 3–5.
30. Though the idea of free banking can be traced as far back as Adam Smith and the initial ideas of what David Glasner calls Classical Monetary Theory, it has undergone considerable development in recent decades. Though the literature is too extensive to list in detail, several main sources stand out: Lawrence H. White, *Free Banking in Britain: Theory, Experience and Debate, 1800–1845* (New York: Cambridge University Press, 1984); id., *Competition and Currency: Essays on Free Banking and Money* (New York: New York University Press, 1989); George A. Selgin, *The Theory of Free Banking: Money Supply under Competitive Note Issue* (Totowa, N.J.: Rowman and Littlefield, 1988); and David Glasner, *Free Banking and Monetary Reform*. The following discussion relies primarily on Glasner and Selgin.
31. Glasner, ch. 6.
32. *Ibid.*, 105.
33. *Ibid.*, 113.

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34. *Ibid.*, 112–19.
35. *Ibid.*, 120–21.
36. *Ibid.*, 121–3.
37. The theory of free banking is most completely presented by Selgin. He shows that neither theory nor history supports the myths that free banks would issue so much currency that inflation would destroy its value, and that free banking inherently causes economic instability. The historical evidence, summarized by Selgin in chs. 1–2, shows that where free banking has been tried it produced an efficient, stable monetary regime.
38. Michael Darby has argued that these unemployment rates are misleading, since they count as unemployed all workers employed at emergency work-relief projects. According to his calculations, counting as employed all those employed on work-relief projects reduces the 1933 average unemployment rate to 20.9 percent and the 1937 average unemployment rate to 9.2 percent. Michael Darby, "Three-and-a-Half Million U.S. Employees Have Been Mislaid: Or, an Explanation of Unemployment, 1934–1941," *Journal of Political Economy* 84 (February 1976): 1–16.
39. Michael Weinstein, *Recovery and Redistribution Under the NIRA* (Amsterdam: North-Holland, 1980). See also Weinstein, "Some Macroeconomic Impacts of the National Recovery Act, 1933–1935," in Brunner, ed.
40. Alvin H. Hansen, "Economic Progress and Declining Population Growth," *American Economic Review* 29 (March 1939): 1–15. See also Alvin H. Hansen, *Full Recovery or Stagnation?* (New York: W. W. Norton, 1941). Hansen had initially been highly critical of Keynes's theory. By 1939 he had changed his mind and become one of the leading expositors of Keynesian economics in the United States.
41. Paul A. Baran and Paul M. Sweezy, *Monopoly Capital: An Essay on the American Economic and Social Order* (New York: Monthly Review Press, 1966). Michael Kalecki, *Studies in Economic Dynamics* (London: George Allen and Unwin, 1943). Id., *Theory of Economic Dynamics: An Essay on Cyclical and Long-Run Changes in Capitalist Economy* (New York: Monthly Review Press, 1968). Id., *Studies in the Theory of Business Cycles, 1933–39* (New York: Augustus M. Kelly, 1968). David Weintraub, "Effects of Current and Prospective Technological Developments upon Capital Formation," *American Economic Review* 29 (March 1939, supplement): 32. Josef Steindl, *Maturity and Stagnation in American Capitalism* (New York: Monthly Review Press, 1979).
42. Michael A. Bernstein, *The Great Depression: Delayed Recovery and Economic Change in America, 1929–1939* (New York: Cambridge University Press, 1987).
43. E. Cary Brown, "Fiscal Policy in the Thirties: A Reappraisal," *American Economic Review* 46 (December 1956): 857–79. Larry Peppers, "Full-Employment Surplus Analysis and Structural Change: The 1930s," *Explorations in Economic History* 10 (Winter 1973): 197–210.

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44. Gene Smiley, "Some Austrian Perspectives on Keynesian Fiscal Policy and the Recovery in the Thirties," *Review of Austrian Economics* 1 (1987): 145–80.
45. Darby, 9–10.
46. Lester V. Chandler, *America's Greatest Depression, 1929–1941* (New York: Harper and Row, 1970), 223.
47. Most of this information comes from Chandler.
48. These three unions, and particularly the United Mine Workers, provided most of the funds used to finance the unionization drives of 1936 and 1937. This information is drawn from Irving Bernstein, *The Turbulent Years: A History of the American Worker, 1933–1941* (Boston: Houghton Mifflin, 1970), particularly ch. 8.
49. For further discussion of this see Gallaway and Vedder, 52–6.
50. Cowen, 522, notes omitted.
51. Increasingly this conclusion is being reached by economic historians. For example see the following recent American economic history textbooks: Jonathan Hughes, *American Economic History*, 3rd ed. (Glenview, Ill.: Scott, Foresman, 1990), ch. 27. Robert C. Puth, *American Economic History*, 2nd ed. (New York: The Dryden Press, 1988), ch. 18; and Gary M. Walton and Hugh Rockoff, *History of the American Economy*, 6th ed. (Orlando, Fla.: Harcourt Brace Jovanovich, 1990), ch. 24.
52. This section draws upon Gene Smiley, "The 1937–1938 Depression," forthcoming in David Glasner, ed., *Encyclopedia of Business Cycles, Panics, and Depressions* (New York: Garland, 1992).
53. This is discussed in Peppers, 204–9.
54. Friedman and Schwartz, ch. 9. See also Smiley reference in n52 above.
55. One of the earlier advocates of this explanation was Benjamin M. Anderson, *Economics and the Public Welfare: A Financial and Economic History of the United States, 1914–1946* (Indianapolis: Liberty Press, 1979 [1949]), chs. 66–71. More recently Gallaway and Vedder (56–7) have reexamined and restated the explanation.
56. The AFL was less than anxious to organize mass production industries largely employing unskilled and semi-skilled labor. They saw no natural barriers to entry to create the kind of bargaining power that existed in industries employing highly skilled labor, usually with long apprenticeship periods. Furthermore, most of the unions in the AFL feared that if the mass production industries were organized, the much larger number of new union members would gain control of the unions from their old-line members. Finally, the skilled trade unions in the AFL did not relish the idea of allocating the workers in the new mass production industries among the various unions.
57. At the fall 1937 meeting of the AFL it did expel the unions which were members of the CIO, and in 1938 they formed the Congress of Industrial Organizations.
58. Having no success at organizing Ford and Little Steel, the CIO decided to

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test the new powers of the NLRB by bringing charges of unfair labor practices against these firms. The cases slowly moved through the courts until finally, in 1940, the NLRB's findings of unfair labor practices were upheld and, in 1941, court-ordered representation elections were held and the firms organized.

59. The reserve ratio for central reserve city banks was lowered from 26 to 22.75 percent; for reserve city banks from 20 to 17.5 percent; and for country banks from 14 to 12.25 percent.
60. See Smiley, "Some Austrian Perspectives," 158–61.
61. *Ibid.*, 167.
62. Robert Higgs, "Wartime Prosperity During World War II?," paper presented at the cliometric sessions of the Allied Social Science Association meetings, Washington, D.C., December 28, 1990.
63. Simon Kuznets, *National Product in Wartime* (New York: National Bureau of Economic Research, 1945).
64. Simon Kuznets, *Capital in the American Economy* (Princeton: Princeton University Press, 1961).
65. Higgs, 4.
66. His argument here was that, conceptually, the military's capital stock *could* be converted to peacetime uses.
67. William Nordhaus and James Tobin, "Is Growth Obsolete?," in National Bureau of Economic Research, *Fiftieth Anniversary Colloquium* (New York: Columbia University Press, 1972).
68. Higgs, 5.
69. Lowell Gallaway and Richard Vedder, "The Great Depression of 1946," Contemporary History Institute, Ohio University, Athens, Ohio; forthcoming in *Review of Austrian Economics.*
70. *Ibid.*, 15.
71. For a discussion of some of these effects see Hugh Rockoff, *Drastic Measures: A History of Wage and Price Controls in the United States* (New York: Cambridge University Press, 1984), chs. 4–5.
72. Milton Friedman and Anna J. Schwartz, *Monetary Trends in the United States and the United Kingdom: Their Relation to Income, Prices, and Interest Rates, 1867–1975* (Chicago: University of Chicago Press, 1982).
73. Cowen, 522. There is growing acceptance of the hypothesis that these are short-term speculative bubbles. See the "Symposium on Bubbles" in *Journal of Economic Perspectives* 4, no. 2 (Spring 1990): 13–101.
74. Wanniski, ch. 7. Cowen (523) refers to Shiller's work showing that stock prices are only loosely related to economic fundamentals. However, this work is concerned primarily with the relationship between an individual stock's price and its dividend. Wanniski, by contrast, simply says that changes in the economic environment which are expected to affect most firms in the same way (in this case a fall in business profits) surely will lead investors to bid down the share prices of most firms; this is hardly a

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debatable point. It should also be made clear that my suggestion here is that in 1929 the greater likelihood of the tariff increase caused a much more rapid downward revision of stock prices, but it was not the only factor, since prices had already been falling sharply since the beginning of September 1929.

75. Cowen, 523.
76. This, of course, includes the demand for currency and deposit balances as well as other financial assets.
77. The Kennedy-Johnson tax cut was designed to accelerate long-run economic growth, not to bring the economy out of a recession. Thus, it was not designed to promote a recovery or slow inflationary growth as per Keynes's original ideas.
78. This is not the place to delve into the effectiveness of Keynesian fiscal policy in the last 25 years, but, as one example, the evidence does not suggest that the 1968 surtax dampened the inflationary expansion then taking place. Much of the recent theoretical research on macroeconomics, such as that of the rational expectationists, has raised serious doubts about the federal government's ability to undertake countercyclical fiscal policy.

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Tyler Cowen

CAN KEYNESIANISM EXPLAIN THE 1930s? REJOINDER TO SMILEY

In "Why Keynesianism Triumphed," I argued that free market economics had yet to provide a satisfactory explanation of the length and severity of the Great Depression. Furthermore, the available evidence indicated support for views which might be broadly be interpreted as "Keynesian." Wages exhibited inflexibility in a predominantly free labor market, stock prices and investment demands were volatile, and economic recovery followed only with the advent of the Second World War. I argued also that the scope of government intervention during the 1930s had been overrated by many free-market economists.

Gene Smiley, in his response, attempts to rebut or defuse most of my claims. I find his article the best statement and summary of a free-market view of the Great Depression that has been published to date.

The question remains, however, whether Smiley has successfully defended market-oriented explanations. My original essay was (deliberately) ambiguous on whether free-market economics had not explained the Depression satisfactorily or whether free-market economics *could* not explain the Depression. While Smiley makes a good case that a market-oriented explanation is stronger than I had thought, I am still far from

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convinced that the available market-oriented explanations are satisfactory or even the best available.

What Is Market Failure?

Smiley and I agree upon the facts but interpret them differently. Smiley devotes much attention to analyzing the costs of various government policies, including the Smoot-Hawley tariff, Hoover's wage and price jawboning, NIRA, and bad monetary policy, to name but a few examples. Smiley believes that these policies (among others) explain the length and severity of the Depression.

Here I am only partially convinced. I agree with Smiley that each policy was unwise and that each contributed to the length and severity of America's economic problems. My original piece was clear on this point.

But my judgment, on balance, still points to the conclusion that markets did an extraordinarily bad job in reacting to these negative shocks. Governments frequently institute bad policies, sometimes many bad policies, but business downturns do not always turn into massive decade-long depressions. The scope and kinds of intervention during the Depression do not appear sufficient to explain the catastrophic results. I find it reasonable that economists in the 1930s concluded that markets were malfunctioning. This view does not let the government off the hook for its policy mistakes.

The ex post component in Smiley's explanations is too strong for my taste. The source of my discomfort can be illustrated by a specific example. Assume that we were to examine the history of the early 1970s, also a time of economic troubles. We could point to wage and price controls, heavy military spending, massive increases in welfare benefits, and the oil price shock. The general economic environment involved minimum wages, pro-union legislation, high tariffs, an unstable world monetary order, vigorous antitrust enforcement, and the entire New Deal regulatory apparatus. On top of all this was a very foolish monetary policy, resulting from Fed chairman Burns's attempt to reelect Nixon by inflating the money supply before the 1972 election. The interventions of the 1930s do not seem excessive in comparison.

Given Smiley's interpretation, we should be surprised that the 1970s did not see the onset of an even greater depression than the 1930s. They did not. In my view, the difference is that markets reacted more successfully in the 1970s.

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What Is At Stake?

Some of Smiley's piece rebuts arguments which I did not make, or at least did not intend to make, in my original essay.[1] First, Smiley argues that Keynesianism cannot explain the onset of the Great Depression. I am in complete agreement on this point. My arguments focused upon why markets did not bring about a speedier recovery once the Depression was underway.

Second, and perhaps most important, Smiley and I frequently consider different notions of Keynesianism. Many of Smiley's remarks are directed at the formal Keynesian apparatus (IS-LM analysis, the consumption function, etc.), whereas I was concerned with Keynesianism as a general worldview which emphasizes disequilibrium and the malfunctioning of markets. Many of Smiley's criticisms are directed at the inability of Keynesianism, interpreted as a specific model, to explain the Depression. Again, I am in complete accord with his arguments here.

Smiley and Keynes

At times, Smiley appears to accept arguments which, if not literally Keynesian, would be welcomed by most Keynesians. Consider the "wage stickiness" of the early 1930s. Smiley notes: "If there had been perfectly competitive markets" wage flexibility should have prevailed. "However, perfect markets with perfect knowledge and perfect foresight are something not granted to mere mortals; they have never existed and never will. If the initial failure of wage rates to decline is a market imperfection, then this characteristic has existed for a long time. . . . Nor is it surprising that this occurs."

Most likely, Smiley's primary intention here is to argue that we should judge markets by realistic standards, rather than by a perfect markets model. But in making his point, his reply actually concedes more to the Keynesians than my paper. I would have thought that wage flexibility operates rapidly in unregulated markets.

Later, Smiley writes: "In reality, industrial leaders can act on assumptions which turn out to be incorrect, as they did at the onset of the Depression." Is Smiley accepting the charge of market failure? My paper, while polemically phrased, was in substance actually more agnostic than some of Smiley's concessions.

I am not convinced by Smiley's hypothesis that workers resist cuts in nominal wages because they confuse nominal wage cuts with cuts in real wages. Smiley notes that "workers did not until recently have access to price indices to tell when all prices are falling. As far as they knew, wage

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rate cuts would have reduced their real wages." But perhaps workers do not need to read the CPI in the newspaper to know what is happening to prices. Daily purchases of consumption items may suffice to give workers information about their real wage.[2]

Much of Smiley's argument rests upon the plausibility of worker and employer confusion between real and nominal wage rates. According to Smiley, deflationary monetary policy can give rise to unemployment in a predominantly free labor market through this mechanism. I consider it an open question whether confusion between real and nominal wages occurs. And if such confusion does take place, should we not classify it as a market failure?

Despite Smiley's analysis, I remain baffled by the degree of wage stickiness (both nominal and real) observed in the 1930s. NIRA did not come until later and Hoover's jawboning, even if effective, did not apply to all employers. I refer to my original piece for more detail on these points. I do not see that Smiley has explained the presence of high unemployment for the early years of the Depression.

Smiley argues that the nominal wage declines that did occur were not sufficient because the supply of money was falling at the same time. The public wished to hold more money in the form of currency and less money in the form of bank accounts. Because of fractional reserve banking and the "money multiplier," the total supply of money declined. At the same time, banks began building up their reserves, which created further deflationary pressures.

Smiley's explanation is valid but strikes me as highly Keynesian. Namely, a disastrous deflation occurs because of a flight into outside money. True, the flight into outside money was partially motivated by uncertainty about government policy, but this does not invalidate the basic point. Keynes had placed his finger upon a very real phenomenon which had been underemphasized by earlier theories.

Smiley, building upon the work of David Glasner, is quite critical of the international gold standard in creating deflationary pressures. Again, I think Smiley's points are well taken. But Keynes, who described gold as a "barbarous relic," would probably have taken comfort in seeing the gold standard blamed for a deflationary crisis. Keynes would have agreed that a managed gold standard implies high rates of interest and price deflations inconsistent with full employment.

I do not mean these points as criticisms of Smiley. Rather, they support my view that the evidence of the times created sympathy for Keynesian views. Smiley himself accepts much of this evidence.

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Recovery

By the end of World War II, the Great Depression was over. I find this fact puzzling. The government had spent four years investing more than 50 percent of GNP in areas with no direct economic returns. But by 1946, the American economy was well on its way towards great strength, despite the continuation of government intervention and institutionalization of most New Deal reforms.[3] How are we to explain this?

Smiley notes that "the real recovery began in 1946, not 1941," but he makes no attempt to resolve the puzzle. Why wasn't 1946 an utter catastrophe? See my above remarks comparing the 1930s to the 1970s and then imagine a comparison with a wartime command economy. While the Keynesian worldview does not offer a full explanation, it remains the most plausible account of the postwar recovery.

Stock Market and Investment Volatility

I do not pretend to understand either the determinants of stock market prices or the determinants of investment. Both behave in ways which I find extremely baffling.[4]

Smiley offers various specific criticisms of the Keynesian theory of investment. These criticisms aside, does a careful examination of the stock market support or reject the Keynesian "animal spirits" worldview? My study of stock markets has led me closer to the Keynesian view, and I am not dissuaded by the admitted shortcomings of the Keynesian theory of investment. Black Monday, October 19, 1987, did much to shake my view of markets.

Postwar Prosperity

My essay suggested that the "role of government in macroeconomic planning has increased dramatically across the world. This increase has not prevented economies from compiling a successful track record." Smiley points out correctly that Keynesian policies have not been practiced throughout much of the postwar era. Here we return to the distinction between the particulars of Keynesian theory and the broader Keynesian picture of market failure. Postwar experience does not support strongly Keynesian particulars but it does support the broader Keynesian worldview.

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* * *

I have learned much from reading Smiley's excellent essay, but my doubts have been only partially assuaged. The economic history of the Great Depression remains a puzzle to me, and, I believe, to most members of the economics profession.

NOTES

1. I apologize if the fault is my own for this confusion. Furthermore, it is certainly not Smiley's only goal to reply to my essay. He is replying to other arguments as well.
2. I am currently working on a longer study of signal-extraction problems; e.g., the confusion of nominal and real variables. My views on the importance of such problems are currently agnostic; in any case, I do not find that Smiley makes a convincing case.
3. I should note in passing that I do not believe that living standards were especially high during the war. Some of Smiley's arguments rebut the claim that they were.
4. Smiley's reply attributes a more concrete position to me than can be found in my essay or than I am willing to take. I note in passing that the level of stock prices is one determinant of investment, but my main point is that the volatility of stock prices supports the view that investment is volatile as well. Much of Smiley's reply argues that no strong relationship between stock prices and the level of investment is present. I am not sure whether critics of Keynes should welcome this conclusion or not.

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Alec Nove

"THE SOVIET EXPERIMENT WITH PURE COMMUNISM": REPLY TO BOETTKE

In his very interesting paper on "The Soviet Experiment with Pure Communism,"[1] Peter J. Boettke attributes to me the view, apropos war-communism, that "Marxian ideology was used *only* as an ex post rationalization for policies introduced as practical responses to emergency situations." I have italicized the offending word.

Of course, throughout Soviet history, quotations from the founding fathers have been selectively used to justify whatever policy was currently being followed, but I have never argued that ideology did not influence policy decisions. In my *Economic History of the USSR*, in the chapter on war-communism, I stressed the importance of both, i.e. of war and of communism, noting how they reinforced each other. To give a proper weighting to each of them is no easy task. The Soviet historian Gimpelson gave particular emphasis to war-emergency, the Hungarian Laszlo Sza-

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muely to ideology, Silvana Malle in her thorough study to both, as indeed I tried to do.

No serious scholar can doubt that excesses, ideologically inspired excesses, were committed during this period. Indeed Lenin himself admitted as much, and one has only to read the party program adopted in 1919, or Bukharin's "Economics of the Transition Period," or Trotsky on the militarization of labor. But interestingly enough as soon as war-communism ended, Trotsky never returned to the theme of labor militarization, and Bukharin became almost overnight the principal apostle of NEP. So the necessities of war, and not only ideological requirements, made their contribution to policies. This aspect particularly impressed H. G. Wells when he visited Russia in 1920.

Surely no major action in the real world of politics can be attributed *solely* to ideology. Thus requisitioning of farm produce (*prodrazverstka*) could be seen as a (ruthless) follow-up to measures designed to force peasants to deliver grain at state-fixed prices—measures originally introduced, as a response to war emergency, before the fall of the Tsar. Not even the most extreme Bolshevik would have based relations with the peasants on virtual confiscation. Under more normal conditions he might have advocated some sort of product exchange. But then under normal conditions the Bolsheviks would not have been in power in the first place!

NOTE

1. Peter J. Boettke, "The Soviet Experiment with Pure Communism," *Critical Review* 2, no. 4 (Fall 1988): 149–82.

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Peter J. Boettke

"THE SOVIET EXPERIMENT WITH PURE COMMUNISM": REJOINDER TO NOVE

Professor Nove contends that I wrongly attributed to him a myopic view of the ideological motives behind Bolshevik economic policy, when in reality it is my view that is distorted because it overemphasizes those motives. I agree with Nove that "no major action in the real world of politics can be attributed *solely* to ideology." (If I suggested that he argues in contrast for *no* ideological role, I apologize.)

My claim is that the major role played by non-ideological factors was in influencing not the policies of "war communism," but the manner in which they were implemented. The aspirations expressed in "war communism" were not born in the crucible of military expediency, but originated instead in the political economy of Karl Marx and were transformed into praxis by Lenin from 1918 to 1921.[1]

Against this claim, Nove raises not only the general issue of the role of ideology in Soviet history, but also the intriguing matter of Trotsky's and Bukharin's policy positions in the period following "war communism." Nove admits that no serious scholar of Soviet history can deny that there

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were ideologically inspired excesses during "war communism," but he points out that "as soon as war communism ended Trotsky never returned to the theme of labor militarization, and Bukharin became almost overnight the principal apostle of NEP." He concludes from these facts that labor militarization and opposition to economic markets must have been due primarily (though not exclusively) to "the necessities of war." But unless we are to fall into *post hoc ergo propter hoc* reasoning, more must be done to explain the reason for, and the nature of, the change in Trotsky's and Bukharin's views.

The policy pronouncements of Trotsky and Bukharin are a mixed bag in the 1920s. Although Trotsky did not continue to advocate labor militarization, he did press for planned industrialization and an anti-kulak campaign, and he continually referred to NEP as a temporary retreat. "Only the development of industry creates an unshakable foundation for the proletarian dictatorship," he wrote.[2]

Trotsky did not accept (at least in the 1920s) that "war communism" had produced economic chaos because it necessarily brought too much administrative responsibility on itself. Rather, he claimed that its failure was due to lack of administrative ability. NEP, Trotsky argued, did not differ substantially from "war communism" with regard to *the planning principle*. The difference lay in the method of planning. Under NEP, "arbitrary administration by bureaucratic agencies is replaced by economic maneuvering," but industrial development must still be guided by the State Planning Commission. The system of "one-man management must be applied in the organization of industry from top to bottom." As Trotsky saw it, the main problem in meeting this goal was "the inadequate selection of business executives."[3]

Better selection of personnel and the establishment of correct incentives for economic planners would ensure a successful extension of the planning principle. This extension would not just lead to the modification of the market, but to its eventual replacement."In the final analysis," Trotsky said at the Twelfth Party Congress in 1923, "we will spread the planning principle to the entire market, thus swallowing and eliminating it. In other words, our successes on the basis of the New Economic Policy automatically move towards its liquidation, to its replacement by a newer economic policy, which will be a socialist policy."[4]

However, Trotsky's program of industrialization remained fundamentally incoherent throughout the 1920s. He feared concessions to foreign capital, yet he wanted to import capital resources to build up industry. He maintained a siege mentality and argued that foreign capitalists would not deal with Soviet Russia, yet he supported foreign trade. He supported NEPist reforms, yet argued that the market must be liquidated. Despite all

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the equivocation, however, as Nove has himself pointed out, Trotsky never fully escaped from his fear of the "market devil."[5]

Bukharin's position is even more puzzling. In fact, Bukharin's "swing to the right" is one of the great mysteries in early Soviet history. During the "war communism" period he represented the extreme left wing of the Bolshevik party. His books *The ABC of Communism* and *The Economics of the Transition Period* were regarded as the theoretical manifestos of "war communism." They defended the policies of coercion and extreme centralization that the Bolsheviks had implemented from 1918 to 1921. While many readers are shocked by the conclusions Bukharin reached in these works, it is even more amazing to witness his swing to the right under NEP. Not only was Bukharin one of the premier theorists of "war communism," he was also the premier theorist of NEP.

The failure of "war communism" deeply affected Bukharin's thinking, representing—along with the adoption of NEP—"a collapse of our illusions." "War communism," Bukharin argued, had been viewed "not as military, i.e., as needed at a given stage of civil war, but as a universal, general, so to speak 'normal' form of economic policy of a victorious proletariat."[6] The tentativeness of the political alliance between the workers and the peasantry and the economic annihilation of industry and agriculture in 1921 conflicted with Bukharin's original expectations of socialist construction. But unlike the other Bolsheviks, Bukharin had a paradigm with which to interpret these failures: economic theory.

Bukharin was a serious student of bourgeois economics. During his exile from Russia, he studied economics in Vienna and attended Böhm-Bawerk's seminar on economic theory. He later embarked on a serious study of the theories of Walras and Pareto. His book *The Economic Theory of the Leisure Class* (1919) was a product of these studies.[7] Bukharin was well aware of both Böhm-Bawerk's and later Mises's criticisms of Marxian economics and socialist organization. In 1925, for example, he referred to Ludwig von Mises as "one of the most learned critics of communism" and admitted that Mises was right about the unfeasibility of socialism, at least given the current stage of cultural development in Russia. Bukharin went on to state that viewed in its economic essence, "war communism" resembled the command socialism that the learned economists of the bourgeoisie predicted would lead to destruction. And NEP represented the rejection of this system and the "shift to a rational economic policy."[8]

But Bukharin's position, like Trotsky's, remained fundamentally at odds with itself. For while he admitted the necessity of the retreat to the market, he maintained that NEP was nevertheless a political victory for socialism. "When we crossed over to the NEP we began to overcome in practice the . . . bourgeois case against socialism. Why? Because the meaning of the NEP

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lies in the fact that by using the economic initiative of the peasants, of the small producers, and even of the bourgeoisie, and by allowing private accumulation, we also placed these people objectively in the service of socialist state industry and the economy as a whole.[9]

Through the use of market stimuli, private interest would be mobilized for the good of social production. As long as the Bolsheviks held the "commanding heights" of the economy, the "backward strata of the proletariat (who were motivated by noncommunist ideas and private interests)" would be made to serve the interests of socialism. By means of "socialist" competition and economic struggle, the socialist sphere would eventually come to squeeze out private interests.[10]

The transition period would last a long time and would have to be managed carefully by the political leaders so that political power would remain firmly in the hands of the Bolsheviks. The creeping socialism that Bukharin advocated was a result of his recognition of the importance of balanced growth in developing the industrial base upon which the future (full) socialist society could be erected. Thus, despite the apparent drastic shift in position, Bukharin's appreciation of market forces in guiding economic development should not be exaggerated.[11]

Bukharin understood, at least to some degree, the problem of matching production plans with consumption demands that must be overcome in the process of economic development. This understanding underlies his demand for capital proportionality within his strategy for economic growth. It served as the basis for his acceptance of an essentially market-oriented model for economic development and industrialization at that stage of Soviet history. But in the ideal Marxian future, where production would be for direct use as opposed to exchange, Bukharin held the view that capital proportionality would be maintained by the planning board's calculation of the appropriate use of capital resources in advance of any economic process. Commodity exchange and production, in such a world, would be abolished—an ancient relic of a capitalist world now surpassed.

To both Trotsky and Bukharin, therefore, NEP represented a pragmatic retreat from the zealous attempt of "war communism" to introduce socialism immediately. But the basic structural goals of "war communism"—the liquidation of commodity production and the establishment of complete and comprehensive economic planning—remained their aims. In the future, once the appropriate industrial base was established, the full socialism of "war communism" could be implemented again. We cannot forget these ideological aspirations if we wish to make sense of Soviet history.

My CRITICAL REVIEW paper deliberately refrained from a full treatment of Nove's interpretation of Soviet history because his views are more complex, balanced, and therefore difficult to summarize, than those of either

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Maurice Dobb or E. H. Carr. However, my book, *The Political Economy of Soviet Socialism*, does treat Nove's ideas at length.[12] Though the book admits that Nove's presentation is very subtle and sophisticated, it contends that his habit of introducing emergency conditions to explain away ideological aspirations produces a misreading of history.

Nove arrives at his conclusions concerning "war communism," just as Dobb and Carr did before him, by discounting Marxian aspirations to supersede the market by eliminating money and exchange relations. Nove justifies this move by arguing that Marx's economic analysis is confined to capitalism and does not extend to the economic problems of socialism.[13] No doubt Marx did not wish to write "recipes for the cookshops of the future," but this was not in order to avoid the problem of examining socialist society. Rather, it represents a crucial aspect of Marx's particular approach to social theory. In this fashion Marx moved beyond the utopian socialists. As Don Lavoie has argued, Marx

> did not blame the [utopian socialists] so much for discussing socialist society as for the way in which they discussed it and for the contradictions within their descriptions. Marx's scientific socialism was not merely an excuse for avoiding any examination of socialist society. It was a recommendation of a particular method for the conduct of such an examination—that is, that socialism be described through a systematic critique of capitalism. For Marx, studying capitalism and developing a positive theory of socialism are two aspects of the same endeavor. Marx conducted a critique of capitalist society from the standpoint of socialism, intending to reveal by this study the main features of the future socialist society. . . . In many respects, where *Das Kapital* offers us a theoretical "photograph" of capitalism, its "negative" informs us about Marx's view of socialism.[14]

I suggest that it is Marx's implicit view of socialism that informed the Bolsheviks, inspired them, and guided them in their attempt to construct a better world order. Much of the meaning of these events is lost if this is overlooked.

NOTES

1. I have argued this position in my *The Political Economy of Soviet Socialism: The Formative Years, 1918–1928* (Boston: Kluwer, 1990), 63–111. Also see my "The Political Economy of Utopia," *Journal des Economistes et des Etudes Humaines* 1, no. 2 (1990): 91–138. For classic presentations of this interpretation of Soviet history see Boris Brutzkus, *Economic Planning in Soviet Russia* (Westport, Ct.: Hyperion Press, 1981 [1935]); Paul Craig Roberts, *Alienation and the Soviet Economy* (New York: Holmes and Meier, 1990 [1971]), and

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Laszlo Szamuely, *First Models of the Socialist Economic System* (Budapest: Akademiai Kiado, 1974).

2. Leon Trotsky, "Theses on Industry" (March 1923), in Robert V. Daniels, ed., *A Documentary History of Communism*, vol. 1 (New York: Vintage, 1960), 235. Also see Trotsky, *The New Course* (1924), in *id.*, *The Challenge of the Left Opposition (1923–1925)* (New York: Pathfinder, 1975), 120, where he argued that the development of "state industry [was] the keystone of the dictatorship of the proletariat and the basis of socialism." The principle concern of Gosplan "must be the development of state (socialist) industry."
3. Trotsky, "Theses on Industry," 236–7.
4. Trotsky quoted in Richard Day, *Leon Trotsky and the Politics of Economic Isolation* (New York: Cambridge University Press, 1973), 82.
5. See Alec Nove, "New Light on Trotskii's Economic Views," *Slavic Review* 40, no. 1 (Spring 1981): 84–97.
6. Nikolai Bukharin quoted in Nove, "Some Observations on Bukharin and His Ideas," in Nove, *Political Economy and Soviet Socialism* (New York: Allen and Unwin, 1979), 86.
7. Nikolai Bukharin, *The Economic Theory of the Leisure Class* (New York: Augustus M. Kelley, 1970 [1919]). In the preface to the book Bukharin wrote that his "selection of an opponent for our criticism probably does not require discussion, for it is well known that the most powerful opponent of Marxism is the Austrian School" (9).
8. Nikolai Bukharin, "Concerning the New Economic Policy and Our Tasks" (1925), in Bukharin, *Selected Economic Writings on the Transition to Socialism* (New York: M.E. Sharpe, 1982), 188.
9. *Ibid.*, 189.
10. *Ibid.*
11. For a recent discussion of Bukharin's views of the market see John Salter, "N.I. Bukharin and the market question," *History of Political Economy* 22, no. 1 (Spring 1990): 65–79.
12. See my *The Political Economy of Soviet Socialism*, 11–61.
13. Nove has recently argued this point in *The Economics of Feasible Socialism* (London: Allen and Unwin, 1983).
14. Don Lavoie, *Rivalry and Central Planning* (New York: Cambridge University Press, 1985), 29–30.

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Jan Narveson

SHOPPING-MALL LIBERALISM: REPLY TO LEGUTKO

Ryszard Legutko's very intelligent essay, "Society As a Department Store,"[1] raises a familiar question about liberalism, though with unfamiliar clarity. Nevertheless, the appearance that there is a *problem* here is one that needs to be dispelled. There is, indeed, a problem in getting people to understand why there is no problem; but I shall try.

"Cultural relativism," says Legutko, "though not being a necessary theoretical assumption, must eventually emerge as an actual practice in the libertarian order." Why so? Because all cultures are equally tolerated in the great liberal society? Because there is to be room for all types in the great libertarian "department store"? Because there culture is treated in the same way as, say, a brand of TV: you pays your money and you takes your choice? It is indeed the essence of liberalism that there is no overarching ideal of the true way to live that shows us which choice among ways to live is the *right* choice. If that's something to bother us, then we have a problem. But the solution to that problem is to realize that it is *not* something that should bother us, in any way. The idea that there is in this something to worry about is confused, and it is a confusion that has caused

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and will continue to cause, for a long time to come, turmoil, tragedy, and misery. All of it, I believe, unnecessary.

Legutko's problem stems from failure to invoke what the liberal must insist is an important distinction, one corresponding to what I have elsewhere called the "narrow" versus the "broad" sense of "moral."[2] "Narrow" morality, or morality in the narrow sense of the term, is the set of rules to be reinforced (including *en*forced) upon all in their mutual relations. "Broad" morality, or perhaps better, ethics, concerns, in a word, how to live. It is not a simple or neat distinction, but it is a makeable distinction and its importance is profound. It is required at the very heart of liberal theory.

The liberal is the person who insists that narrow morality is not to be regarded as a straight deduction from broad morality. If I decide that Mozart is the greatest composer, it does *not* follow that I should, then—even if I can—strap everyone to his chair and make him listen to Mozart. For Plato and Aristotle, and for Hitler and the Ayatollah Khomeini and innumerable others, on the other hand, that is exactly what does follow. The purpose of political institutions is to shore up the ideals of Greek culture, or the Catholic Church, or whatever—to apply the stick in the interests of nudging persons as close as possible to the Mean, or Holiness, or whatever. Most (all?) societies do this, indeed, and democracy can be made into a way of ensuring that the particular way of life that does get rammed down the throats of all is the one that happens to be preferred by the majority in that society (or more likely in fact, by a plurality of their representatives in the legislature on the day in question).

But in the liberal's view, there's something wrong with that. Spelling out what's wrong with it is, certainly, formulating a set of values of one sort, namely a set of principles for what I called "narrow" morality. There is no question at all of its being "value-free"—*at that level.* Liberalism is incompatible with, say, socialism and other totalitarianisms, with oligarchy, elitisms of all sorts, and for that matter, actually, with democracy of the type I characterized above. Liberalism declares the absolute right of all to choose among any ways of life, any of what I called "broad" moralities (or indeed, not to "choose" but simply to go along with the stream one happens to be in) except, of course, insofar as they include or have implications for narrow ones. That is liberalism's choice among narrow moralities, and it certainly is a morality, and it *requires* a choice—it is *not* a "relativistic morality"—a notion that has been subjected to damning philosophical criticism often enough to make it unnecessary to repeat it here.[3]

But it is important to see that it is also absolutely wrong to say that what liberalism does is to declare all cultures "equally valuable." Judgments about cultures are themselves cultural judgments, judgments made at the

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cultural level. A person with no taste in music will declare that Mozart is no better and no worse than Sammartini or, for that matter, the Rolling Stones. A person with taste, however, will deny this, and declare that much of what many people seem to like is aesthetically worthless. An extremely shallow (and confused) sort of agnostic might claim that all religions or irreligions are of equal value. But no sincerely religious person will say that. What such a person thinks is that everyone else is, alas, wrong about this—deluded, or whatever. Liberalism gives him the right to say and believe just that. But in so doing, it precisely *denies* him the right to force that judgment down the throats of *hoi polloi* who, for incomprehensible reasons of their own, have failed to see these aesthetic or religious truths. Alas, the poor sods who don't understand about Mozart's Quintet in C Major are probably fated to remain the sods they are. But they're still sods—let's be clear about that. (Such is the stuff of judgments about ways of life.)

"Plato's argument that the Culture of equal cultures is empty" is a confusion, and Legutko, alas, has gone along with it. Liberalism is not, in the relevant sense, really a "culture" at all. It is not a way of life, though it is, of course, a part of many ways of life. It is a part that the liberal thinks ought to be a part of *everyone's* life, regardless of that person's culture. But that is not because liberalism is a vapid, empty, shallow, or ghostly "culture," so trivial that all can adopt it without so much as a thought crossing the mind. It is, rather, because it is a social form that enables people to get on with their lives and pursue their various cultures without the drastic costs entailed by warfare and statism (which is really just warfare at another level—statism replaces the "war of all against all" with the war of *some* against all; which can at least be better and is what most of us have, alas, settled for).

If we ask what recommends liberalism, two very different answers can be supplied. One,[4] perhaps more superficial but certainly the most immediately compelling, is that more is better than less, and given the way society is, liberalism is likely to get everyone more than they will have if instead they try to elevate their particular ways of life into what I have called narrow moralities, that is, rules for all. The seventh-century Muslim will have to abandon that part of his doctrine which requires him to force all others to submit either to the Koran or the sword. Instead, it gives everyone their choice of toleration or the sword, take it or leave it. Those who choose the sword will, liberals hope, feel the might of liberal nations upon them. Let us bear in mind that there are no two ways about that. "Moral relativism" at this level is simply nonsense. How does a *liberal* "tolerate" Nazism, when the very essence of Nazism requires that all who disagree shall die? But the alternative, in the case of nearly all cultures,

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nearly all ways of life, is to reject those components of one's belief that demand either the obeisance or the death of all who disagree. Liberalism allows disagreement, of course: it proposes that we agree to disagree—you practicing your religion over there, in your temple, and I mine (or my irreligion) over here, in mine. It guarantees us our respective temples; it denies us the unlimited aspiration to embrace all in our religious grasps, like it or no.

But in so doing it does *not* abandon the search for The Good. That would be, for one thing, an absurd thing to do. We each have a life, after all, and must live it somehow. A life cannot consist in toleration, because "toleration" does not denote any positive activity in itself. If everyone does nothing but tolerate, there will be nothing to exercise our toleration upon. If we take up the supermarket model, then what is available in it are things of which we *must* each wind up with one. For whether or not we chose it, we *will* wind up with one; but for most of us, the possibility of choice will in fact enable us to have an improved version.

Now for the second and subtler, and perhaps ultimately more important, point about liberalism. This subtler argument attends to the nature of culture and values, and it asks this: if a culture cannot exist without the sword, if a value would not be embraced but for the threat of violence, then can it be worth embracing? This is the Inquisitor's paradox. If he secures the adherence of the devout by torturing all who deny, what is to guarantee that what those who succumb have displayed is indeed "devotion"? Does someone who accepts Mohammed or Christ or Nazism because the alternative is the gas chamber or the bonfire in point of fact *accept* those creeds? If you were God and these souls presented themselves at judgment day, what would you think? "Hey, great! This guy is a real devotee, as you can see by the fact that he preferred Me to the thumbscrew!" Terrific reasoning there, Jehovah! But Jehovah won't, of course, be fooled. One who "embraces" a doctrine for reasons like that has not embraced it, and in the eyes of the Infinite, while the falsely "devoted" one may get some sympathy for knuckling under, he surely gets no points for having seen the truth.

The problem, in fact, is that you *can't reach* the truth by these methods, and that is a truth that has only been truly appreciated by liberalism. There *is* no method of reaching the truth except that of honest toil—of unforced cogitation, argument, and open exposure to life. There is *no* "political culture" of the type that Legutko and the many others who have argued this line seem to think liberalism unhappily deprives us of. Any culture that achieves hegemony by force is a walking self-contradiction. E.g., any egalitarianism that proposes to utilize the machinery of government to force us all into the proposed state of equality deprives itself utterly of any

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moral foundation its doctrine could have. But a community of volunteer egalitarians in, say, a kibbutz, surrounded by greedy capitalists and such, at least has the virtue of honesty to recommend it. And who knows? Perhaps eventually they will persuade us all of the truth of their views, in which case, despite liberalism—or rather, because of it—all of society will end up a huge kibbutz. So be it.

At present, and so far as I can see for the future, the prospect of universal conversion to any particular view of life by the appropriately legitimate methods is zero. If you wish to weep about that, fine. But don't weep because you have lost the opportunity to achieve heaven on earth, for what you have been deprived of, in being disallowed to impose your view on the rest of us, is not in fact that opportunity, but rather the opportunity to create an illusory heaven which is actually another version of hell.

This second argument, as I say, is subtler, and nothing is easier than to suppose that somehow Plato was right, and that there's nothing for it but to legislate, enforce, invade, and pillage in the name of truth and justice and stuff like that. Only hollow victories await those who would fight thus.

There is nothing wrong with the "shopping mall" metaphor. But the title of Legutko's article exemplifies the fallacy I am concerned about. If by "the mall" one refers to the political aspects of society, then liberalism does not "condemn people to life in the mall." People don't spend their lives in shopping malls: they actually buy things there, after which they go home and enjoy them. This hardly means that malls are pointless or absurd or mistaken or empty. On the contrary: the consumer is lucky to have them. So Legutko is fortunate. For even if he embraces liberalism, he doesn't have to spend his life in the "liberal shopping mall." He may spend it, for example, in one of its booths, trying to peddle his favored cultural wares to all comers. But he doesn't have to do even that. For he needn't open his doors for business at all if he doesn't want to. You can make your selection of lives, and live it—in peace, if you are lucky enough to live in a liberal polity; and if you are not, then who knows? Quite possibly you won't be allowed to live it at all.

The point of liberalism is not to "eliminate the problem of choice by increasing diversity." It is, on the contrary, to facilitate choice. But it does eliminate imposed choice, and indeed, that is precisely how it facilitates true choice. Nothing Legutko says has any tendency whatever to show that high-level imposed choice of ways of life dictated by the Central Committee or the mullahs, is necessary at the relevant level, this being the level of ways of life. In a well-managed shopping mall, the mall offices are invisible; one doesn't even realize that there is a management. Legutko needs to show us that the management must not only keep the mall open

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but also tell us what to buy. If he realized that this is what he needs to prove, then he would surely also realize that there is no need to prove it, because there is no need for that function. It is a fallacy to suppose this—a highly seductive fallacy, and one to which most, I fear, have succumbed, but a fallacy nonetheless.

Lives have to be spent someplace, after all, and the mall is literally no place to spend it. Malls are good places to visit, but most people wouldn't want to live there. You could starve to death that way, you know?

NOTES

1. Ryszard Legutko, "Society as a Department Store," *Critical Review* 4, no. 3 (Summer 1990): 327–43.
2. See my *The Libertarian Idea* (Philadelphia: Temple University Press, 1989), where I use "social" and "personal" instead of "narrow" and "broad." I get the "narrow" and "broad" terminology from J. L. Mackie. See his *Ethics* (Pelican Books, 1977), 106–7.
3. An entry of my own in this sizable field is found in my critical notice of David B. Wong's "Moral Relativity" (*Canadian Journal of Philosophy* 17, no. 1 [March 1987]: 235–58).
4. This is also pressed in *The Libertarian Idea.*

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Ryszard Legutko

SHOPPING-MALL LIBERALISM: REJOINDER TO NARVESON

Jan Narveson has honored me with a detailed reply that raises several interesting points. Let me repeat what I said in my article. I reject libertarians' favorite dichotomy—either a concentration camp or a department store. Hence I am not dissuaded by Narveson's rhetoric—the sword, Hitler, the Ayatollah Khomeini, the stick, forcing judgments down the throats of the *hoi polloi*, torturing, thumbscrews, etc. To prevent these things from happening we need good political institutions and good law. Arguing for the necessity of a hierarchy (or hierarchies) or arguing for the necessity of arguing about a hierarchy (or hierarchies) in a liberal-democratic society does not make one the Inquisitor or his accomplice. Culture certainly does not need the sword, but it does need political (in the Aristotelian, not in the Machiavellian sense of the word) commitment and support; otherwise, anything that exists would be a culture, and the only cultural problem would be to see to it that no sword is used. I do not deny that it is an important problem, but I do deny that it is the only problem, considering that for libertarians any argument for narrowing the broad morality smells of blood.

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The distinction between "narrow" and "broad" has, in my opinion, little substance. Broad creeds often have implications for narrow creeds, although the relations between the two categories are, I admit, extremely complex and do not allow—contrary to what Plato believed—for easy manipulation. My preference for Mozart rather than for Madonna may be and usually is a private matter, but it need not be so. If we agree that Mozart is objectively more valuable than Madonna, is it not legitimate to postulate that the school system in our country be construed in such a way that Mozart rather than Madonna is taught there? Or at least is it not legitimate to claim that there is something fundamentally wrong in a society which has lost a sense of such cultural hierarchies? After all, to live in a society which displays a high degree of cultural illiteracy is by no means a private matter. What political action should follow such a diagnosis is a different matter. Certainly, the answer is not easy and is bound to be discriminatory. But to say that we should not do anything because everyone has the absolute right to practice his or her own "culture" is also a form of political action, and may be no less discriminatory (as in many American universities practicing the policy of repressive diversity). Do I not have the right to draw implications from my broad creed and to demand that the system in which I live be reformed accordingly?

If I do not have this right, what is the point of talking about the important issues submerged by the notion of "broad morality" with anyone who does not already agree with me? The libertarian imperative seems to stifle rather than facilitate the political and moral debate within a society.

1. Libertarians share a strange conviction that of all political philosophies, theirs is the only one which is both universally valid and compatible with all cultures. Both these claims are untrue. Libertarianism is not the only worldview which deserves, as Narveson puts it, "to be a part of everyone's life." There are other points of view of various degrees of universality, and I see nothing wrong with combatting, in the name of universality, those orientations which I consider false or one-sided. And if my position or my adversary's takes the upper hand, it is natural to draw practical conclusions in spite of the danger of error and possible dissatisfaction of certain groups. All societies evolve in this way, and nothing indicates that things will be different in the future. All societies have a more or less definite cultural shape that elevates certain ethical ideas and discriminates against others. We may and often we should argue for some changes in the existing hierarchies, but to say that every culture should have its own temple with no mediating hierarchy is neither realistic nor desirable. Society resembles more a debating club than a department store. The implementation of the department store model would destroy the

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social fabric and would result in more serious conflicts than those that characterize a society quarrelling about which ideals to elevate.

2. Libertarians ignore many lessons we have learned from the past. They did learn—and this is a lesson whose importance cannot be overestimated—that ethical systems become perverted once they are identified with political power. But there are other valuable lessons too, sometimes taught by thinkers who did not particularly like freedom and who constructed mind-boggling political fantasies. Are we to dismiss the critical analyses of a liberal order by Plato and Aristotle (or *horribile dictu* by Joseph de Maistre, for that matter) only because they offered unacceptable alternatives to liberalism? Are we to throw the philosophy of republicanism and its concern with the public good into the dustbin of history? Are we to ignore Aquinas's teaching about natural law because the Roman Catholic Church is an authoritarian institution? In short, I see many problems where Narveson sees no problem at all. I see questions where Narveson and other libertarians see the solution. To delegitimize those questions by making them private or "cultural" is to close one's eyes to the pressing issues of liberal societies and to refrain from analyzing the consequences of the libertarian blueprint. The problems will not disappear by declaring them non-existent.

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Bruce J. Caldwell

LUDWIG M. LACHMANN: A REMINISCENCE

Ludwig M. Lachmann was born February 1, 1906 in Berlin and died December 17, 1990 in Johannesburg, South Africa. He received his doctorate from the University of Berlin in 1930 where he studied under, among others, Werner Sombart. After leaving Germany in 1933 Lachmann studied with F. A. Hayek at the LSE. He became a University of London Leon Fellow in 1938 for his research on "secondary depressions." The fellowship allowed him to travel to the United States, where he visited Columbia, Harvard and Chicago. He attended Frank Knight's famous seminar at the last of these stops. From 1943 to 1948 Lachmann taught at the University of Hull. From then until his retirement in 1972 he held a chair at the University of the Witwatersrand in Johannesburg. Lachmann came out of retirement to serve as a Visiting Research Professor in the Program in Austrian Economics at NYU from 1975 through 1987.

Lachmann's major works are *Capital and Its Structure* (1956), *The Legacy of Max Weber* (1971), and *The Market as an Economic Process* (1986). A collection of his essays entitled *Capital, Expectations and the Market Process* (1977), edited by Walter Grinder, contains an intellectual biography as well as a

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bibliography through 1977. Lachmann's many contributions to economics have yet to be fully measured. A first step towards assessment is the *Festschrift* volume edited by Israel Kirzner in honor of his eightieth birthday, *Subjectivism, Intelligibility, and Economic Understanding* (1986).

Lachmann played an important role in the "Austrian Revival" that began in the early 1970s and the "interpretive turn" towards hermeneutic analysis taken by certain Austrians in the 1980s. Of equal importance was the effect of Lachmann's personality on the individuals who were lucky enough to know him.

* * *

I first met Ludwig M. Lachmann on February 4, 1982 at the first spring semester meeting of the Colloquium in Austrian Economics at New York University. I was spending the year there on a post-doc, and Lachmann had traveled from the University of the Witwatersrand in South Africa (as had been his custom over the preceding few years) to spend the spring semester with his fellow Austrians. Though we had not been introduced, as soon as the goateed man with the twinkling eyes spoke I knew who he was. He started slowly, even haltingly. At first he appeared to ramble, but as he went on an argument unmistakably began to take form. The crucial juncture was signalled by a long, overtly dramatic pause. Then came the main point, spoken forcefully and rapidly, with all r's rolled, his eyes scanning the seminar table, case established, who could disagree?

During that first meeting I had an exchange with Mario Rizzo about the concept of market-clearing. I argued that though the speed of adjustment problem was an empirical issue, it was not something that could be tested as a general proposition. I drew the implication that one's view of the rapidity of clearing was a matter of faith, nothing more than a metaphysical assumption, though obviously a crucial one. Lachmann nodded his head vigorously as I was finishing up, which pleased me immensely. We met on the elevator after the session and he invited me to his office the following morning, which pleased me even more. I didn't realize at the time that I had hit upon themes that were fully compatible with the Lachmannian vision.

The next day I walked into Lachmann's office at 10 AM and took a seat. He looked at me, smiled, and said, "How shall we begin?" I had no idea what he meant, so I asked him to start. We talked for nearly two hours, mostly about assorted methodological questions: about whether Lionel Robbins was best viewed as a neoclassical or a subjectivist economist; about Mises's search for a philosophical home; about the problems associated with an a priorist approach to methodology. It was a fascinating experience, but even better, the beginning of an ongoing event. Every

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Friday morning through the end of April we met for a couple of hours to discuss the colloquium of the day before, questions of general strategy for the newly emerging Austrian movement, and articles that I had read since the previous week's discussion.

This last requires some explanation. In the course of our Friday morning meetings Lachmann would mention five to ten articles that I should look over during the following week. The term "mention" is a bit of an understatement. Lachmann would not merely recall that economist x had made an interesting point about matter y in journal z sometime in the 1930s. He would recite the author, article title, journal name, journal number, month and year of publication, and frequently the pages within the article on which a specific argument had been made! I was flabbergasted the first time he did this, and would have suspected that there was some trick had I not seen him do it over and over again, citing articles published three generations ago with the same precision and ease as those found in last year's journals. One person Lachmann did not cite during these sessions was himself. I knew of his book on capital theory, but he never mentioned it. It was not until later that I found that he had written a superb (though neglected) collection of essays, some on methodological themes, entitled *The Legacy of Max Weber* (Berkeley: Glendessary Press, 1971), and that he was then working on another book, *The Market As an Economic Process* (Oxford: Blackwell, 1986).

The topics we discussed on those memorable Friday mornings ranged widely, from Menger's methodology to the widespread availability of high quality, mild cigars in the U.S. (Havanas, though, made him sick); from Hicks's recantation of IS-LM to the brutality of the New York winter (it was, of course, summer when he had left South Africa). I learned of the myriad views that distinguished him not only from other economists, but from many Austrians as well. We talked of the significance of divergent expectations, the absence of a theory of the path, the variety of types of entrepreneurs, the past Austrian neglect (just then showing signs of being remedied) of the writings of Max Weber and Alfred Schütz, and the role played by Lachmann's old friend G. L. S. Shackle in carrying forward the mantle of subjectivism.

Questions of strategy also arose. Lachmann lamented the decline in Austrian influence that took place in the 1930s. He felt that the leadership of the movement missed a golden opportunity then to extend the subjectivist tradition. The villain of the piece was not Keynes, who in Lachmann's view was a subjectivist (hence Shackle's importance), and perhaps even a better subjectivist than either Mises or Hayek. Rather, it was the advent of Paretian modeling techniques, and specifically the general equilibrium approach, that forced the Austrians into their period in the wilder-

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ness. They remained there until the early 1970s, when the Austrian revival began. The revival surprised and delighted Lachmann, of course, but it also carried with it a disquieting sense of déjà vu. Would the Austrians miss another opportunity, as they had in the 1930s? What was the best way forward for the modern Austrian movement? We talked about this often and at length, though most of our conclusions took the form of what Austrians ought not to do. For example, neither of us saw a priorism as providing a viable epistemological underpinning for praxeological reasoning. Lachmann's general stance was to be open to new ideas, a pluralistic vision that was quite appealing.

This openness was not a pose, as demonstrated by Lachmann's attitude towards the infamous Viennese economist Hans Mayer. Many Austrian economists hated Mayer for his despicable behavior following the *Anschluss*: as president of the National Economic Association, he issued an order expelling its Jewish members. Lachmann, a Jew who fled Berlin in 1933 after Hitler came to power, frequently referred to Mayer's work on causal-genetic explanation and path dependence as important, and lamented that it had been overlooked.

In the course of our discussions we occasionally found ourselves disagreeing over some point. Lachmann's way of calling this to my attention was to begin a sentence with the disarming phrase, "My dear Brrrruce, *surely* you don't mean to say that. . . ." He would then enumerate the flaws in my analysis. I cannot recall winning any of these arguments, but neither did he let me go away feeling that I had lost. This was clearly an enviable trait, and one eminently useful for an academic!

My Friday morning sessions with Ludwig Lachmann are a wonderful memory, one of the peak intellectual experiences of my academic career. Here was a man who had lived through some of the most exciting episodes in twentieth-century economics. Most scholars of his stature busy themselves with their own work. Fame is not best pursued by conversing with one's juniors. But instead of working on his own projects, Ludwig Lachmann took the time to share his considerable knowledge with someone else, someone whom he had never met before. He could have done all of this in a way that would have felt overwhelming to the young academic lucky enough to receive his attention. Instead, he offered this most valuable of gifts humbly, without pretense or self-importance. A more inspiring role model is hard to imagine.

* * *

After I had left NYU, I discovered another side of Ludwig Lachmann: his skills as a correspondent. Lachmann wrote nearly as well as he spoke. Since this is high praise indeed, let me illustrate my claim. The topic under

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discussion was the shift towards an interpretive, or hermeneutical, economics that was being undertaken by a group of subjectivist economists at George Mason University. I had expressed some reservations about the movement; what follows is Lachmann's response:

> To take your main point first: Why am I anxious that we establish our eligibility for membership of the Hermeneutics Club? What matters to me is our access to a broad reservoir of ideas that, at this moment, look interesting; our ability to meet in the club lounge (and not by appointment), informally, a number of interesting people and exchange thoughts with them.
>
> What use we are going to make of our club membership, how often we visit it, are quite different matters. I am anxious that we establish our eligibility. Perhaps the cuisine is not to our liking or more likely, has its ups and downs. Perhaps they serve at the bar a brand of vodka that is bad for our health. If so we shall have to take obvious precautions. What matters is our ability to participate in the commerce of ideas.
>
> Let me briefly give you three examples of harm we have suffered in the past when we had no such broad reservoir to fall back on. The 1930s were a decade of calamity anyway. When in 1938 Hutchison hit out at Austrian methodology, Robbins gave in. He had no reservoir of GENERAL ideas to fall back on. Knight, by contrast, had one, but its texts were mostly in German and thus, in 1940, not much good in the Anglo-Saxon world. Thus in his 1940 paper he had to improvise, to write as Max Weber would have written had he confronted Hutchinson. Finally, who can doubt that Shackle would have had much less difficulty establishing himself as an authoritative thinker on human action if he had been able to draw on a broad body of thought, of general ideas? (As a matter of fact he did not even draw on Bergson!)
>
> As you say, there are of course "dangers of association." There is the possibility that the more radical deconstructionists take over the Hermeneutic movement. Seems to me that our chance in helping to stave off such an event will be greater to the extent to which we have established an accredited place within the Club. (March 11, 1987)

A few months ago I got the chance to browse through the Hayek archives at Stanford. Ludwig Lachmann's letters were some of the best in the whole collection. They always concerned IDEAS (he would have capitalized the word), and his references to books and articles were typically so numerous that he adopted the convention of using the red ribbon on his typewriter whenever any references were made. (He even switched to a red pen one time when the letter was handwritten!) The life of the mind was ideally suited to his personality.

I learned something else in the archives. In some of his letters to Hayek in the late 1950s and early 1960s Lachmann raised many of the same objections to the application of Karl Popper's philosophy within economics as I

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had raised during our Friday morning conversations. Yet Lachmann had sat and listened to me then, just as if the thoughts were new ones to him. He understood that education is a continual discovery process—and did not grow impatient when others made discoveries that for him were already long-established premises.

* * *

The last time I saw Ludwig Lachmann was on February 18, 1987 at NYU. I presented a paper at the Colloquium, then spent three hours talking with him in his office. When we got up to leave he held my coat for me, something no one has done for me since I was a child. Later, he insisted on paying for the cab that took us to our hotel, even though had I paid the fare, I would have been reimbursed. (He refused to listen to this argument.) Both gestures suggest the magnanimity that came so naturally to this kind and modest man.

As we parted that day he said to me, "I will say farewell rather than au revoir, since at my advanced age I am never certain that I can keep the promise implied by au revoir." Farewell, Professor Lachmann. You inspired more people than you would ever have imagined. The world is a duller place, and a less gentle one, with your passing.

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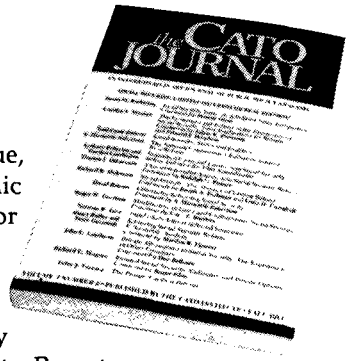

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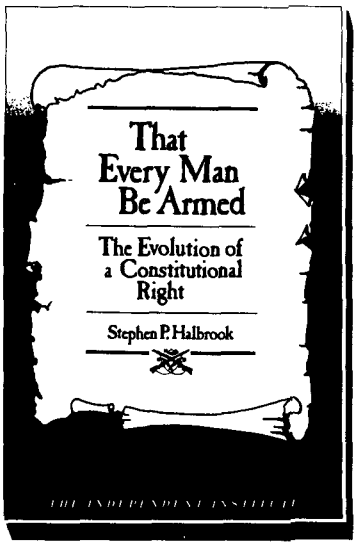

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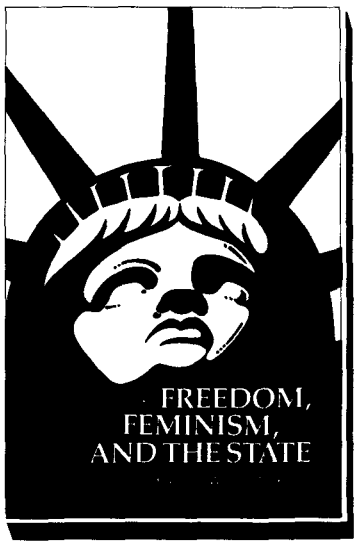

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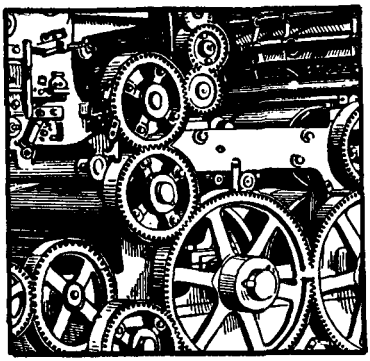

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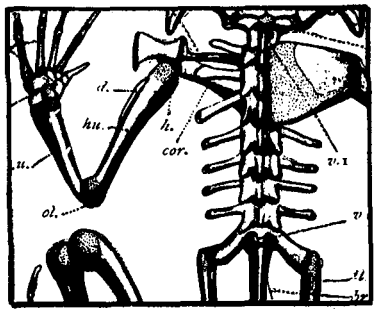

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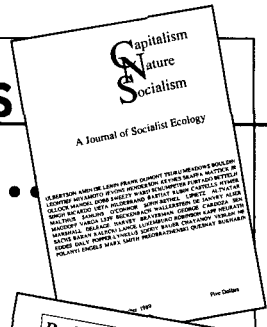

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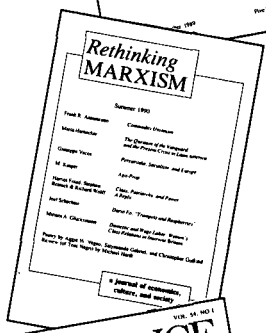

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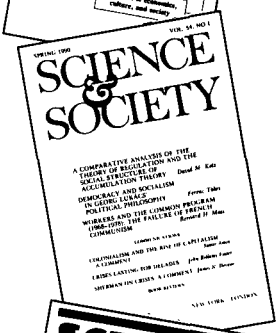

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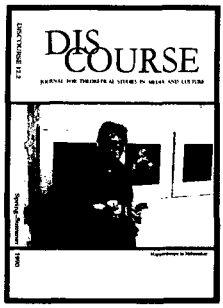

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